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ABSTRACT

The effects of the current student financial aid delivery system on five major participant groups are examined: federal government, states/guarantee agencies, postsecondary institutions, lenders and secondary markets, and applicants and families. Attention is directed to effects of the current system, including: administrative costs, fund forecasting, fund control, availability of information, integration across programs, other aid programs, net revenue, certainty of funds, processing time, distribution of aid, rate of return for lenders, costs and time involved for applicants, turnaround time, miscalculation/error, and database vulnerability. This information is provided for specific aid programs, including the Guaranteed Student Loan program and the Pell Grant program. Appended materials include: a chart of current delivery system activities, results of a 1982 survey of consumer complaints, and a glossary.

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ASSESSMENT OF ALTERNATIVE STUDENT AID DELIVERY SYSTEMS:

ASSESSMENT OF THE CURRENT DELIVERY SYSTEM

SUPPLEMENT I
TO THE
FINAL REPORT

Prepared for

Credit Management Board
U.S. Department of Education

and

Division of Quality Assurance
Office of Student Financial Assistance
U.S. Department of Education

Contract No. 300-80-0952

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Revised September 1983

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PREFACE

The Office of Student Financial Assistance (OSFA) of the Department of Education (ED) has contracted with Advanced Technology, Inc. of McLean, Virginia, and its subcontractor, Westat, Inc. of Rockville, Maryland, to conduct a three-year quality control project (Contract No. 300-80-0952). The project focuses on the Pell Grant Program, the second largest of the student aid programs. The objective of Stage Two, Part Three, is to assess the effects of delivery system alternatives identified by OSFA and the ED Credit Management Board. The major reports completed under Stage Two, Part Three, are:

"Evaluation of Alternative Student Aid Delivery Systems: An Organizational Strategy," October 1982.

"Assessment of Alternative Student Aid Delivery Systems: A Context Paper," November 1982.

"Delivery System Assessment Task: Briefing for the Credit Management Task Force," November 1982.

"Assessment of Alternative Student Aid Delivery Systems: The Preliminary Model," December 1982.

"Assessment of Alternative Student Aid Delivery Systems: Analysis Plan," January 1983.

"Delivery System Assessment Task: Technical Advisory Panel Briefing," January 1983.

"Assessment of Alternative Student Aid Delivery Systems: Preliminary Specification of the Current System with Program Antecedents," January 1983.

"Assessment of Alternative Student Aid Delivery Systems: The General Assessment Model," March 1983.

"Assessment of Alternative Student Aid Delivery Systems: Analytic Agenda for the Current System," March 1983.

"Technical Advisory Panel Think Tank," May 1983.

"Assessment of Alternative Student Aid Delivery Systems: Framework for the Specification of Alternatives," May 1983.

"Assessment of Alternative Student Aid Delivery Systems: Assessment of the Current Delivery System," June 1983.

"Assessment of Alternative Student Aid Delivery Systems: Briefing on the Preliminary Findings," July 1983.

"Assessment of Alternative Student Aid Delivery Systems: Final Report," August 1983.

"Assessment of Alternative Student Aid Delivery Systems: Assessment of the Current System, Supplement I to the Final Report," revised September 1983.

"Assessment of Alternative Student Aid Delivery Systems: Specification of the Current System, Supplement II to the Final Report," September 1983.

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CHAPTER ONE
INTRODUCTION

This report is part of a one year study of the effects of alternative approaches to the delivery system for Federal student aid programs. The study is focused on the major Title IV programs:

- The Pell Grant program (formerly Basic Educational Opportunity Grants)
- The Guaranteed Student Loan (GSL) program
- The Campus-Based programs:
  - Supplemental Educational Opportunity Grants (SEOG)
  - National Direct (formerly Defense) Student Loans (NDSL)
  - College Work-Study (CW-S).

The purpose of this study is to provide administrators within the U.S. Department of Education, including members of the Credit Management Board and the Secretary, with the information they need for decision-making regarding changes in the student aid delivery system. The study was conducted in three phases. The objectives of these phases were to:

- Phase I:
  - Develop the assessment model
  - Specify the current delivery system
- Phase II:
  - Assess the effects of the current system
  - Identify alternatives to the current system
  - Identify the objectives of delivery system redesign

- Phase III:
  - Develop detailed descriptions of selected alternatives
  - Assess the differential effects of the alternatives, in comparison to the effects of the current system
  - Assess the time, costs, and risks associated with implementation of each alternative
  - Rank the alternatives according to various objectives of delivery system redesign.

This supplement to the Final Report represents an important milestone in the second phase of this study, the assessment of the effects of the current system. This assessment provided the basis for the comparative analysis of five generic alternatives to the current system, as well as for the development of six evaluative criteria that were used to assess the alternatives. More information on the other phases of this study is available in the Final Report.

This introduction presents an overview of the methodology that was used to assess the current system, and of the related limitations. Chapter Two summarizes the findings of this assessment. Chapters Three through Seven provide the detailed analysis of each effect that was analyzed for each participant group. The effects that were assessed for each participant group are presented in Figure 1-1. Each of the detailed chapters contain:

- A definition of the effect which is assessed and a summary of the findings
- A detailed presentation of the findings organized by data source
- An analysis of the relationship of the findings to specific delivery system subsystems and activities.

1.1 THE GENERAL ASSESSMENT MODEL

To assess the effects of the current and alternative delivery systems, a general assessment model was developed. This section discusses the development of this model and its use to assess the current delivery system. Other uses of this model are discussed in the Final Report.

APPLICANTS/FAMILIES

- Application Cost
- Turnaround Time
- Applicant Time
- Certainty of Funds
- Miscalculation/Error
- Data Base Vulnerability
- Availability of Information
- Distribution of Aid

POSTSECONDARY INSTITUTIONS

- Administrative Costs
- Processing Time
- Certainty of Funds
- Fund Control
- Availability of NDSL Capital
- Availability of Information
- Distribution of Aid
- Other Aid Programs

LENDERS/SECONDARY MARKETS

- Rate of Return
- Certainty of Funds
- Fund Control
- Availability of Information
- Other Aid Programs

STATES/GUARANTEE AGENCIES

- Net Revenue
- Certainty of Funds
- Fund Control
- Availability of Information
- Other Aid Programs

FEDERAL GOVERNMENT

- Administrative Costs
- Fund Forecasting
- Fund Control
- Availability of Information
- Integration Across Programs
- Other Aid Programs

FIGURE 1-1

MAJOR EFFECTS
OF THE STUDENT AID DELIVERY SYSTEM

The general assessment model was based on a conceptual framework, which explicitly maps out the relationships between the programs, the delivery system, and the environment within which they operate. This interrelationship is illustrated in Figure 1-2. The logic of the conceptual model takes into account the social problems which the student aid programs are designed to address through the development of the legislation, regulations, and administrative decisions that are the basis for the program. These laws, regulations, and administrative decisions define the student aid programs; the delivery system is the mechanism--the combination of inputs, processes, and outputs--used to deliver the programs. Environmental factors, as well as political factors, affect these decisions about the content of the programs and of the delivery system.

The focus of this analysis is the system used to deliver Federal aid to students, rather than on the features of the programs. This delivery system has effects on its various participants. For student aid programs, the major participant groups include applicants and their families, postsecondary institutions, lenders and secondary markets, state guarantee agencies, and the Federal government.

The distinction between the effects of the programs and the effects of the delivery system is critical to understanding the approach. This approach treats program features as a requirement for the delivery system. Analysts using this model have attempted to hold these program features constant when evaluating the current system and the alternatives. Theoretically, this approach can also be used to evaluate how proposed program changes would affect the delivery system. The programs are designed to meet certain policy objectives--e.g., access, choice, and persistence in college--while the delivery system involves a large number of actors in a process designed to achieve these objectives. The effects of the delivery system are quite different from the objectives and effects of the programs, although they do affect the ability of the program to meet its goals. Effects that accrue to the participants in the delivery process include such factors as turnaround time (for applicants), administrative costs (for institutions), and fund control (for the Federal government). Improvement in these effects can benefit the affected participants, without changing the actual features of the programs.

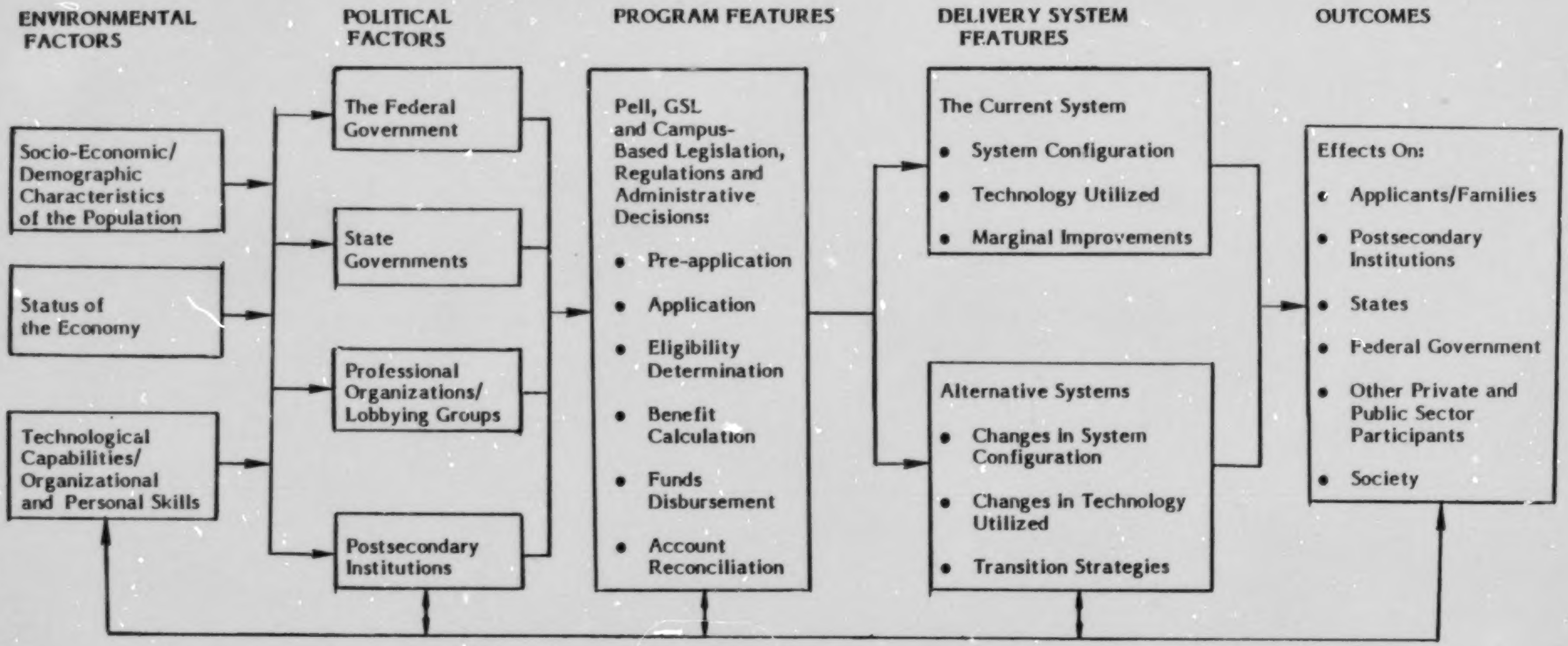
ENVIRONMENTAL FACTORS
POLITICAL FACTORS
PROGRAM FEATURES
DELIVERY SYSTEM FEATURES
OUTCOMES
Socio-Economic/ Demographic Characteristics of the Population
Status of the Economy
Technological Capabilities/ Organizational and Personal Skills
The Federal Government
State Governments
Professional Organizations/ Lobbying Groups
Postsecondary Institutions
Pell, GSL and Campus-Based Legislation, Regulations and Administrative Decisions:
• Pre-application
• Application
• Eligibility Determination
• Benefit Calculation
• Funds Disbursement
• Account Reconciliation
The Current System
• System Configuration
• Technology Utilized
• Marginal Improvements
Alternative Systems
• Changes in System Configuration
• Changes in Technology Utilized
• Transition Strategies
Effects On:
• Applicants/Families
• Postsecondary Institutions
• States
• Federal Government
• Other Private and Public Sector Participants
• Society

FIGURE 1-2

CONCEPTUAL FRAMEWORK:
THE STUDENT AID DELIVERY SYSTEM

Analysis of the effects of the delivery system within this conceptual framework requires the following methods of assessment:

- Specify the current and alternative delivery systems, and trace their impact, using sound systems analysis methodology
- Evaluate the impact of the features of the programs and delivery system, using sound program evaluation methodology
- Assess the effects of the current system and the effects of the alternatives, and address related policy questions, using sound policy analysis methodology.

A systems approach was used to specify the current delivery system--in terms of program features (laws, regulations, and administrative decisions) and related system steps (inputs, processes, and outputs) for each activity designed to implement these programs. This format for delivery system specification is also used to specify selected delivery system alternatives, in the "Specifications of the Current System and Selected Alternatives," which is the second supplement to the Final Report. Consequently, the alternatives are specified in enough detail to proceed directly with delivery system design, once a decision has been made regarding which alternatives should be implemented.

This project has used evaluation methodology to assess the major factors that affect the outcomes of a given delivery system. It explicitly recognizes that these outcomes are not just the result of the delivery system itself, but that both the system and its impact are affected by the external environment. Evaluation methodology is usually utilized to assess the effects of a program. For the purpose of this project, this methodology was adapted to the assessment of delivery systems.

The use of policy analysis methodology was necessary to provide the Credit Management Board and other ED policymakers with the assessment of policy options. Policy analysts are sometimes forced to use imprecise data to make inferences about important policy issues; however, this project has attempted to identify and utilize the best data sources currently available. The purpose of this sort of analysis is to maximize the benefits of the assessment relative to its costs; to provide enough information to make sound policy decisions, without incurring the large time and dollar costs of collecting more precise data or running experimental systems. Thus this study utilizes existing data sources to analyze the effects of the current system, and to estimate the probable effects of alternatives.

The remainder of this section discusses the methodology that was used to assess the current delivery system. The assessment of alternatives is presented in the final report. These analyses are focused on the differential; the effects of the current system were utilized as baseline measures, the effects of the alternatives were then assessed in comparison to the current system.

To assess the current system, the conceptual framework had to be expressed as an explicit model that could be used in the assessment. The assessment model that was developed is very detailed and complex, although the concepts behind it follow a clear and simple logic. The steps utilized to develop this model are as follows:

- A review of previous approaches to delivery system redesign, which resulted in a **context paper**,
- A **preliminary model**, which provided the logic for developing the detailed model,
- A **specification of the current system**, including program features (from laws, regulations, and administrative decisions) and system steps (in the form of input, process, output chains) for each activity in the delivery system,
- A **general assessment model**, which identifies intervening variables, environmental factors, and resulting effects for each delivery system activity,
- An **analytic agenda**, which identifies measures, data sources, and methods of analysis for each effect.

Each step in this process has expanded the scope of the analysis. Figure 1-3 presents an illustration of the steps used to develop the model, and the major related documents. Part of the development of this model was the identification of the effects of the delivery system which are most important to the major participant groups. The list of these effects was presented as Figure 1-1.

These effects were identified through a review of the literature, interviews, and the work of the project's Technical Advisory Panel. This panel consisted of

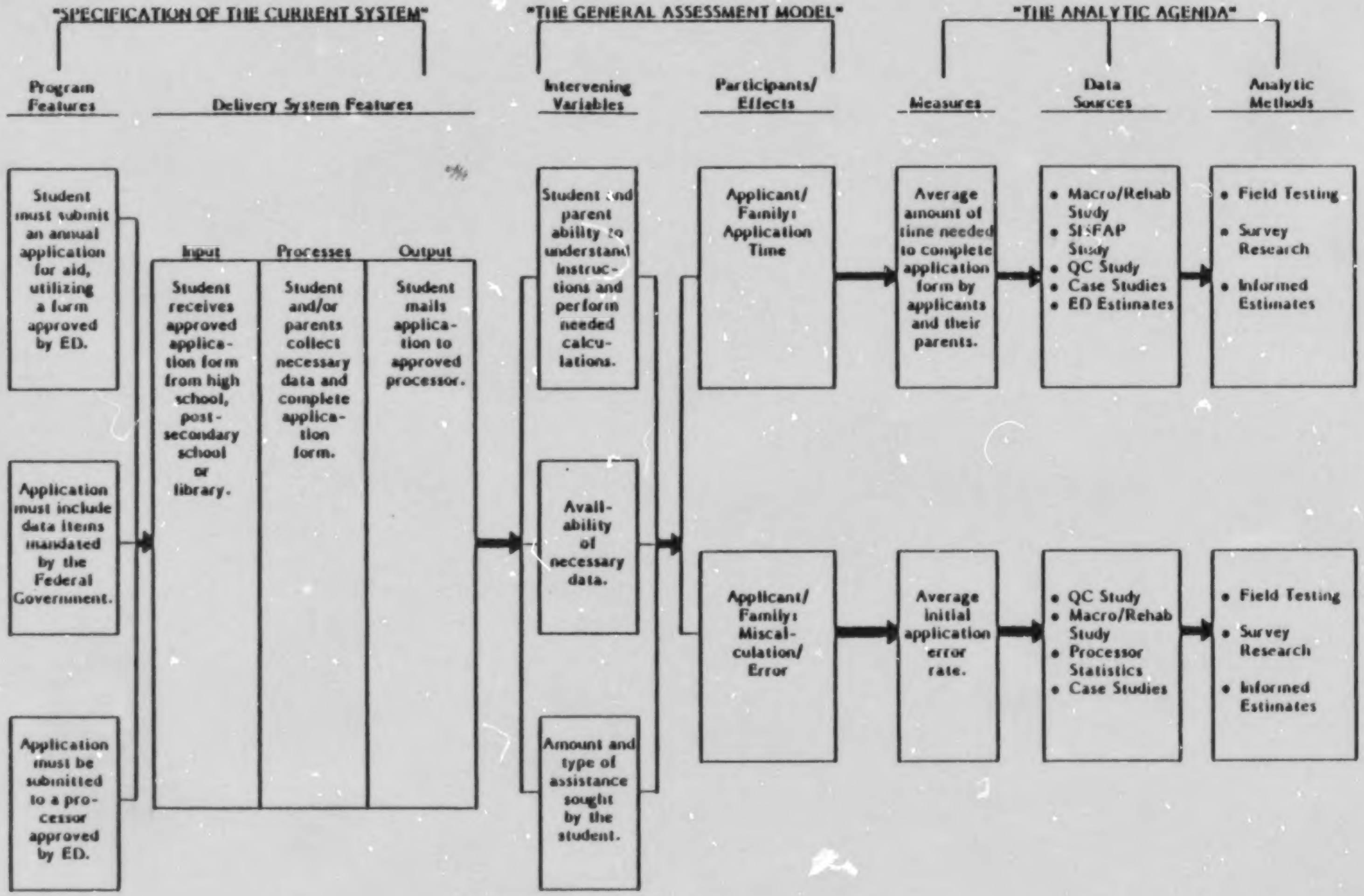
"SPECIFICATION OF THE CURRENT SYSTEM"
"THE GENERAL ASSESSMENT MODEL"
"THE ANALYTIC AGENDA"
Program Features
Delivery System Features
Intervening Variables
Participants/ Effects
Measures
Data Sources
Analytic Methods
Student must submit an annual application for aid, utilizing a form approved by ED.
Application must include data items mandated by the Federal Government.
Application must be submitted to a processor approved by ED.
Input
Processes
Output
Student receives approved application form from high school, post-secondary school or library.
Student and/or parents collect necessary data and complete application form.
Student mails application to approved processor.
Student and parent ability to understand instructions and perform needed calculations.
Availability of necessary data.
Amount and type of assistance sought by the student.
Applicant/ Family: Application Time
Applicant/ Family: Miscalculation/ Error
Average amount of time needed to complete application form by applicants and their parents.
Average initial application error rate.
• Macro/Rehab Study
• SISFAP Study
• QC Study
• Case Studies
• ED Estimates
• QC Study
• Macro/Rehab Study
• Processor Statistics
• Case Studies
• Field Testing
• Survey Research
• Informed Estimates
• Field Testing
• Survey Research
• Informed Estimates

FIGURE 1-3

THE GENERAL ASSESSMENT MODEL: AN EXAMPLE administrators from state agencies, postsecondary institutions, and a lender, with substantial experience related to student aid. After reviewing the draft version of this document, and the results of public hearings and responses to requests for comment, the Department of Education further refined this list of effects. These effects were then developed into six evaluation criteria, which were the basis of the assessment of the alternative systems, and are presented in the Final Report.

The analytic methods for the assessment of the current system were developed in the analytic agenda, which identified the data sources required to evaluate the current delivery system, and the factors that must be analyzed in order to evaluate the likely effects of alternative delivery systems. The first step in the analysis of the current system involved a detailed review by the project team of documents provided by diverse sources. This included:

- Previous national studies of the student aid programs
- ED documents and management reports
- Other reports and studies identified by the Technical Advisory Panel
- Documents collected during seventeen site visits to a diverse group of postsecondary institutions, state agencies, lenders, and secondary markets
- Draft reports by various student aid commissions, task forces, and study groups.

Next, interviews were conducted with many individuals. They included:

- Interviews with ED personnel on the delivery system and its effects
- Interviews with individuals at selected sites visited during the study
- Testimony from four public hearings, as available to the project team.

Descriptive statistical analysis was conducted on selected data bases provided by ED. Those that proved most useful were:

- SISFAP III (1979-80) data base, which was useful for measuring selected student and institutional effects

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- Pell Grant Disbursement Data (1979-82), which was used for analysis of selected Federal and institutional effects
- FISAP (1979-80 and 1980-81), which was used for selected institutional and applicant effects
- Pell Grant QC Stage One and Two (1980-81), which were used primarily to measure selected applicant and institutional effects
- CIRP (1981) which was used to measure selected applicant effects.

Correlation analysis was used only in selected cases. These were:

- Cross tabulations using QC Stage One data to assess the relationship between problems students had with aid applications and student miscalculation/error
- Regression analysis, performed on QC Stage One data to measure the relationship between institutional features and institutional miscalculation/error.

Data from all relevant sources were analyzed for each effect. For some effects, a substantial amount of information was available. In other cases, the information sources were quite limited.

1.2 LIMITATIONS OF THE ANALYSIS

As mentioned earlier, this project was not funded as a data collection effort; rather, it was designed to utilize existing sources of information. It was also designed to assess the delivery system rather than the programs themselves. While this sort of analysis can be very useful to policymakers, there are limitations inherent in this approach. Because of the issues discussed below, the detailed analyses in Chapters Three through Seven include discussion of the data sources themselves, as well as the related limitations.

Because this analysis is focused on the impact of the delivery system rather than the programs, it addresses policy questions related to operational procedures rather than to the impact of providing certain types of aid to a particular population. While the effects of the delivery system affect the ability of the programs to meet their goals, the assessment model would have to be utilized in a different way than it is used in this project to fully evaluate the impact of the programs themselves.

No new data was collected for this study. The assessment of the current system relies heavily on previous studies, existing data bases, interviews, and site visits. Reliance on this sort of data leads to many inherent limitations. First, comparison across previous studies and existing data bases must be approached with caution. Each source of information relied on different methods of data collection, different types of categorization, and different methods of analysis. Although all of the information in this assessment was collected within the past ten years, the nature of the programs and the delivery system, and the characteristics of the participant groups, have changed significantly during this period. Thus data from different years is also not always comparable.

Second, existing studies or data bases do not address many of the effects of interest for the purposes of this assessment. Two approaches were used in these cases. Where applicable, proxy measures were developed. For example, data was not available to directly measure the float or deficit between institutional receipt of Pell funds and disbursements to students. A number of other measures had to be substituted, which address this effect indirectly. In other instances, only information from interviews or site visits was available. This type of data relies heavily on the perceptions and judgments of individuals, rather than on hard data. It also may not be applicable to all organizations of a given type, due to the large variation in the characteristics of particular state agencies, postsecondary institutions, lenders, and secondary markets. There is also variation across the data collected by, and the perceptions of, different Federal employees who were interviewed.

There are additional caveats related to the use of site visit data. The seventeen sites that were visited were intentionally chosen to represent the ends of the spectrum rather than the average. For example, a very large, mail-oriented lender was visited, as well as a small lender who conducts its business on a face-to-face basis. Average lender practices are likely to fall within these two extremes.

In addition, due to a request to delay the site visits to achieve greater coordination with related ED activities, not all of the information that was collected during these visits was available for this particular report. The transcripts from most of the public hearings, and the Federal hearing, were also not available prior to completion of this report. Therefore, the information from the hearings could only be partially integrated into this assessment.

CHAPTER TWO
BASELINE EFFECTS

The methodology discussed in the previous chapter was used to assess 32 effects of the current delivery system on the five major participant groups. The resulting findings are summarized below, and presented in detail in the following chapters. After reviewing this report and comments from the aid community, the Department of Education (ED) developed six criteria to be used for the assessment of alternatives to the current system, as discussed in the Final Report. These six criteria represent combinations of the effects assessed in this supplement as well as a few additional effects, which were determined to represent the most important concerns of the participant groups, and most likely to be affected by changes in the delivery system.

These criteria were then assessed in comparison to the effects of the current system, for each of five selected alternatives. The effects of the current system were used as baseline measures, the effects of the alternatives were then assessed as differences from these baselines. This chapter summarizes these baseline measures for all thirty-two effects. Appendix B of the Final Report presents a summary of the baseline measures for the criteria that were used in the assessment of the alternatives.

2.1 BASELINE EFFECTS ON THE FEDERAL GOVERNMENT

Six effects of the current delivery system on the Federal government were analyzed. Detailed assessments of these effects are presented in Chapter 3.

Fund Control

Fund control is actually a composite measure, including miscalculation/error, float, default and collection rates, and accounting methods. During recent years, the Federal government has taken many steps to improve fund control in the Pell program. A Quality Control (QC) study was undertaken to identify sources of error in Pell application submission and processing, which found that the majority of errors were the result of submission of inaccurate data items by the applicant. Institutional calculations and procedures led to some errors; data processors made very few errors. Validation led to marginal decreases in error rates. For more information on this study, see sections 3.3, 5.3, and 7.5.

The "float" or the difference between the amount and timing of Pell disbursements to institutions, and the amount and timing of subsequent disbursements to students, has been reduced in recent years by the Federal government for the Pell program. While this reduction has led to interest savings for the government, it has also resulted in financial burdens at some schools and delayed student payments at others. See sections 3.3 and 5.3 for more information on this issue.

The accounting and payment verification procedures utilized by the Department for the GSL program have been heavily criticized for many years, in particular by the General Accounting Office. The Department has recently begun to develop procedures to ameliorate these problems; however, it is too early to analyze the effectiveness of these changes. Default rates in the GSL program have improved as the roles of state agencies have increased, although there are significant differences among the rates of individual agencies. For more information on these issues, see sections 3.3, 4.3, and 6.3.

Fund control in the Campus-Based program is primarily the responsibility of the individual schools. In this program, fund control varies greatly depending on the procedures utilized by the individual institution. For more information on this issue, see sections 3.3 and 5.3.

Some concerns were also raised in interviews about the accuracy of the reports the Department receives from various participants, the accuracy and adequacy of the Federal data bases utilized for fund control, and the adequacy of accounting systems and transfers of financial data between Departmental units. See section 3.3.

Administrative Costs

During FY 1982, the Office of Student Financial Assistance expended approximately $66 million on the administration of aid programs, representing approximately 1 percent of total program expenditures. These expenditures include gross obligations for salaries and expenses at headquarters and regional offices, contractual costs, and the costs of administering a revolving fund for loan collections. Most non-contractual costs were for personnel. Contractual costs represent approximately half of total costs; most contractual costs were for data processing. See section 3.1 for more information on this issue.

Availability of Information

At the Federal level, there is concern about the timeliness and adequacy of information that is disseminated to other participants regarding program requirements, policy, and procedures. The Federal government is also concerned with the quality and comprehensiveness of the data bases that it currently maintains, which are used for the purposes of fund forecasting, fund control, and program evaluation. The accuracy of the data contained in these files as well as the organization of the data have been questioned by some users. In addition, some members of the Department have expressed interest in expanding these data bases to include per recipient data for GSL and Campus-Based programs for the purposes noted above. Per recipient data are currently collected for Pell and for GSL borrowers for whom claims have been submitted, although the latter data is not processed in an accessible form. Aggregate data for GSL are currently collected per lender and per state agency; Campus-Based data are collected per school. See section 3.4 for more information on this effect. Sections 4.4, 5.6, 6.4, and 7.7 present information on this effect from the perspective of other participants.

Integration Across Programs

At the present time, most pre-application and a few funds disbursement and account reconciliation activities are integrated at the Federal level. Most activities related to student application, eligibility determination, and benefit calculation are integrated at the institutional level. The degree of integration is constrained by the variations in the features of the programs. For more information on this issue, see section 3.5.

Fund Forecasting

This effect is driven more by intervening variables beyond the control of the Department than by the delivery system. The accuracy of forecasts for the Pell program has varied from year to year for reasons not directly related to the delivery system. Only rough proxy measures of the accuracy of GSL forecasts are available, but again the lack of accuracy is not primarily a function of the delivery system. Campus-Based programs are not entitlement programs, so fund forecasting is unnecessary. See section 3.2 for more information on these issues. Section 3.4 also provides some information on the data bases that are utilized for forecasting purposes.

Other Aid Programs

Differences in the objectives and features of various aid programs have led to development of separate delivery systems, some of which are run by other Federal agencies. See section 3.6 for more information on this issue.

2.2 BASELINE EFFECTS ON STATES/GUARANTEE AGENCIES

Five effects on states and guarantee agencies (GAs) were assessed. It should be noted that these effects relate primarily to the GSL program because, of the Pell, GSL, and Campus-Based programs, this is the only program where the states are currently directly involved in delivery. See Chapter 4 for detailed assessments of these effects.

Availability of Information

State GAs stressed the importance of receiving timely and accurate information on Federal requirements which are related to their development of policies and procedures. They noted that the Federal government frequently imposes last-minute changes and does not provide accurate, complete, and consistent information on these changes. See section 4.4 for more information on these issues.

Net Revenue

Revenue tends to be driven by features of the program, while expenditures (i.e., administrative costs) tend to be driven by the delivery system. In the aggregate, costs represented approximately 70 to 80 percent of revenues in FY 1980 and 1981. Most costs and revenues are related to claims under the insurance functions of these agencies. However, these aggregate figures mask significant differences among individual agencies; some have exceptionally high levels of net revenue, while others have been running deficits. The specific sources and uses of funds also vary greatly by agency. See section 4.1 for more information on this effect.

Other Aid Programs

The interaction of other aid programs with the GSL state agency component is important to some agencies which are responsible for multiple programs. The Pell and Campus-Based delivery system is important to state agencies that consider all sources of aid, are actively involved in information dissemination activities, or use data from the Pell central processor or the need analysis services to distribute state aid (including the Federally funded State Student Incentive Grants, as well as state-funded programs). See section 4.5 for more information on this effect.

Certainty of Funds

State agencies seem to be fairly certain about the amount and timing of most receipts. The major exception seems to be receipt of the administrative cost allowance from the Federal government. While agencies are generally certain as to the amount of this allowance, some complain of uncertainty about when it will be received. See section 4.2 for more information on this effect.

Fund Control

Most state agencies believe that they do a good job of accounting for funds and controlling default rates. However, information from other sources indicates that fund control varies significantly across agencies; some agencies seem to have problems related to controlling default rates, monitoring lenders, collecting accurate information, and accounting for funds. See section 4.3 for more information on this effect; sections 5.3 and 6.3 also address related issues.

2.3 BASELINE EFFECTS ON POSTSECONDARY INSTITUTIONS

Eight effects of the current delivery system on postsecondary institutions were assessed. See Chapter 5 for more information on these effects.

Availability of Information

Representatives of postsecondary institutions frequently noted that the Federal government often initiates changes in program requirements, policies, and procedures overly close to the time when implementation is required. Information on these changes is frequently not disseminated in a timely fashion. Financial aid administrators often indicated that the information they receive is also not complete, accurate, or consistent. These problems tend to adversely affect the school's ability to provide accurate information to its students, to provide timely notification of awards, and to adjust their internal systems and procedures. It was also noted that schools are highly dependent on the information dissemination activities of the Federal government, and of their national and regional professional organizations. For more information on these issues, see section 5.6. Supplemental information is presented in sections 3.4 and 7.7.

Administrative Costs

No recent national data are available on these costs to participating schools. The limited data available indicate that, because of repayment and collections activities, NDSL imposes the largest per-recipient costs on the schools. The costs of Pell and SEOG (not including the costs of recently expanded Pell validation requirements) are about one-third of the costs of NDSL. CW-S is slightly more expensive than the grant programs, because of interactions with employers and payroll processing. GSL is less expensive than any of the above programs, due to the roles of lenders and guarantee agencies. See section 5.1 for more information on these issues.

Processing Time

Once the school receives the application, the SAR, or the results of need analysis, it takes anywhere from a few days to a month to notify the student of his or her award for all three programs under normal circumstances. However, a number of variables influence the actual amount of elapsed time, including peak period backlogs, the degree of automation, the degree of dependence on external processors, institutional policies (e.g., whether a rolling or common notification date is used), and institutional procedures (e.g., how rigorously applications are evaluated). The "cleanliness" of the data submitted by the applicant will also affect elapsed time because it determines the amount of corrections or verification needed. For more information on this effect, see section 5.5 as well as section 7.3.

Certainty of Funds

Some schools must advance their own funds in lieu of Federal dollars, borrow funds, or delay disbursements to eligible applicants, because they do not receive authority to request needed funds in a timely manner. The issue is not whether these funds will eventually be received, but whether the funds will be received prior to related expenditures. Certainty of funds is less of a problem in the Campus-Based program, as long as allocation notifications are received in a timely manner. The only major issue raised in relationship to certainty of funds for GSL was that schools are not always notified of lender disbursements to their students. See section 5.2 for more information on these issues.

Fund Control

Schools tend to believe that their procedures to ensure fund control are good, although they report some problems with specific program requirements. For example, student-by-student account reconciliation for Pell can be difficult for schools with large recipient populations. Tracking student status can also be difficult, especially if students withdraw without following proper procedures.

Sources other than the schools themselves have noted other problems related to fund control. The Pell Grant QC Study found that, while most errors can be attributable to applicants, schools sometimes miscalculate awards or do not include Statements of Educational Purpose or Financial Aid Transcripts in the student's file. It should be noted that many schools verify all applications for aid.

Interviewees indicated that they believe that most institutional accounting procedures are adequate. A very few schools have major deficiencies in these systems. NDSL default rates vary greatly across schools and have improved in recent years. For more information on these issues, see section 5.3.

Availability of NDSL Capital

Availability of loan capital is only marginally affected by the delivery system. Activities related to encouraging repayments and collecting delinquent payments will increase the availability of these funds; the procedures used and success rates experienced for these activities vary across schools. The ability to assign loans to the Federal government has also improved institutional default rates. See section 5.4 for more information on this effect.

Distribution of Aid

This effect is only marginally affected by the delivery system. Schools can influence distribution of aid only in the Campus-Based program, where they are allowed some discretion in aid packaging and in transferring funds among programs or across years. For more information on this effect, see section 5.7.

Other Aid Programs

Most aid programs are already integrated at the campus level. This integration is not always easy, due to differing program requirements as well as delivery system activities. See section 5.8 for further discussion of this effect.

2.4 BASELINE EFFECTS ON LENDERS AND SECONDARY MARKETS

Five effects of the current delivery system on lenders, servicers, and secondary market participants were assessed. See Chapter 6 for a detailed discussion of these effects. It should be noted that only a small number of lenders were interviewed for this project, and little data was available on these effects.

Rate of Return

While this effect is certainly of great importance to lenders, it currently is adequate from the perspective of those lenders interviewed. Little data are available on actual profits, but lenders have indicated that their participation indicates a reasonable rate of return. Lenders generally do not collect data on the rate of return for student loans separate from data on other consumer loans. It is generally believed that student loans are more costly to administer than these other loans, but that interest and special allowance rates, and loan guarantees, adequately compensate for these higher costs. See section 6.1 for more information on these issues.

Certainty of Funds

Lenders interviewed appear to be relatively certain of the amount and timing of funds receipts. See section 6.2 for more information on this issue.

Fund Control

Lenders seem to feel that their accounting systems are good, in part because they are so tightly regulated. Lenders who are also commercial lenders are believed to have better accounting systems than other GSL lenders, according to ED's Division of Certification and Program Review. This Division also noted that its reviews of FISL lenders generally led to the need for corrective actions, but almost never led to the need to impose more severe sanctions.

The largest fund control problem for lenders is tracking student status. Information on borrower status for the purpose of determining entry into grace and repayment periods is frequently not timely, and not always accurate. Lenders noted that they believe the GSL default rate is reasonable, given the characteristics of borrowers and current economic conditions. See section 6.3 for further discussion of these, and related, issues.

Availability of Information

Lenders interviewed noted that the program and related procedures change frequently, and that these changes are generally last minute. The information that lenders receive about these changes is also not timely. In addition, information is often not complete, accurate, or consistent. The presentation of this information also rarely addresses the interrelationship between GSL requirements and the requirements of other agencies that regulate lenders.

The multiplicity of state agencies is also troublesome for lenders or servicers who operate in many states, since it is difficult to assimilate information on the varying policies and procedures. Lenders also expressed a preference for information that identifies the exact procedures they must follow; information is generally not disseminated in this form. Exceptionally active state agencies help to ameliorate some of these problems. See section 6.4 for more information on this effect.

Other Aid Programs

While lenders do care about their ability to integrate systems for delivery of various types of loans, features of the program rather than of the delivery system tend to lead to the need for separate systems. Lenders generally use one system for all GSL (and FISL) loans, but utilize separate systems for any other student loan programs in which they are involved. Few lenders are currently involved in the PLUS program, although this program is expected to expand rapidly. See section 6.5 for more informatin on this issue.

2.5 BASELINE EFFECTS ON APPLICANTS AND FAMILIES

Although no students (or their parents) were interviewed for this project, representatives of other participant groups have commented on the effects of the current system which they believe are most important to applicants. Some data bases were also available which included the results of student surveys. Eight applicant/family effects were assessed; detailed discussion of these effects are presented in Chapter 7.

Availability of Information

A variety of data sources indicate that a significant minority of potential students are not aware of the Federal programs. It is not clear how many students understand their rights and responsibilities once they enter the programs. The cause of this lack of information is unclear, since other participants, in particular instutitional financial aid administrators, are actively involved in disseminating information, responding to inquiries, and counseling students at various points in time. See section 7.7 for more information on this effect.

Turnaround Time

As noted earlier, institutional processing time can take from a few days to a month under normal conditions. However, a number of variables will affect actual processing time at the school. When the time needed for transmission of data, and the time utilized for processing by other participants (e.g., lenders, state agencies, and data processors), validation, and other activities are summed, turnaround time (to award notification) can range from one or two months to four or five months. There may be an additional wait for the actual disbursement of funds. Turnaround time for individual applications can vary greatly, depending on factors such as peak period backlogs, the accuracy and completeness of the application, changes in program requirements, and institutional policies and procedures. See sections 5.5 and 7.3 for more information on this effect.

Certainty of Funds

Certainty of funds from the perspective of applicants is linked closely to availability of information (see above). Uncertainty is the highest when students are first learning about the programs, especially if Federal funding levels or program requirements are still being debated. As the student learns more about the program, certainty increases. Once award notification is received, the only remaining uncertainty relates to finding a lender or job, if necessary. For more information on this effect, see section 7.4.

Applicant Time

With the exception of time spent collecting information and receiving counseling, the largest proportion of time is spent filling out an application. Completion of most applications takes about one hour. Validation can take longer (i.e., about three hours) for those Pell applicants who must be validated. Other delivery system activities, such as loan payments, normally take only a few minutes. For more information on this effect, see section 7.2.

Application Costs

There is no charge for applying to the Pell program alone, and the Pennsylvania Higher Education Assistance Agency does not charge for its services. The other two primary processors (ACT and CSS) charge approximately $6.00 if applicant data are to be sent to one school, and approximately $4.00 for each additional school. See section 7.1 for more information on this effect.

Miscalculation/Error

The Pell Grant QC Study found that more than two-thirds of all Pell recipients received erroneous awards. Of these erroneous awards, more than two-thirds were overawards. The largest proportion of errors was attributed to applicants; institutions accounted for a smaller percentage of miscalculations or errors. Very few errors were attributed to processors. See section 7.5 for more information on these issues, as well as sections 3.3, 5.3, and 7.5.

Distribution of Aid

Distribution of aid is affected primarily by the features of the programs, rather than the delivery system. The delivery system influences this effect only when applicants, schools, or lenders are allowed to make discretionary decisions. See section 7.8 for information on this effect.

Data Base Vulnerability

The security of applicant records varies greatly, depending on the individual organization which is processing, storing, or transmitting the information. See section 7.6 for more information on this effect.

2.6 CONCLUSION

There are a number of important policy questions related to the assessment of alternative delivery system which are addressed by this analysis of the current systems. The key questions include:

- What are the major delivery system effects that should be addressed in attempts to improve the delivery system?
- Which of the most serious, negative effects could only be improved significantly by fundamental program changes or changes in the behavior of various participants?
- Which of the most serious, negative effects could be improved with only marginal changes to the delivery system?
- Which of the most serious, negative effects could only be improved by major structural changes to the delivery system?

Each of these questions is addressed in a variety of ways by the analysis. As noted in the previous chapter, a number of steps were taken to ensure that the effects which are assessed in this report are those which are most important to the various participant groups. The assessment itself includes further evaluation of the importance and severity of each effect. The criteria developed in the Final Report reflect further refinement of the focus of the analysis on those effects which are most severely deficient, and most likely to be affected by changes in the delivery system.

The assessment contained in this supplement also addresses the causes of each effect. It differentiates aspects of each effect that are driven by features of the program, or by behavioral characteristics of a given participant group, from aspects that are more directly related to specific delivery system activities. The contribution of each subsystem and activity to each effect is also addressed, so that efforts to improve a given effect (or subcomponent of an effect) can be targeted on those activities which contribute most greatly to any deficiencies. As a result, the type of changes in the programs, in behavior, or in the delivery system, that are needed for specific improvements can be easily identified. In addition, policymakers can identify areas where marginal changes in the delivery system, many times in a single activity, can have significant beneficial effects, as well as where larger, structural changes are needed.

CHAPTER THREE
FEDERAL EFFECTS

3.1 ADMINISTRATIVE COSTS (FEDERAL GOVERNMENT)

3.1.1 OVERVIEW

Definition

Administrative costs are the expenditures incurred in operating the delivery system. They do not include program funds, such as the aid distributed to students or the subsidies distributed to other participants. Administrative costs do include staff compensation and benefits, office supplies and equipment, rent and maintenance, and contractual costs.

Summary

The Pell, GSL, and Campus-Based Programs are administered at the Federal level primarily by the Office of Student Financial Assistance (OSFA), U.S. Department of Education. In FY 1982, headquarters and regional administrative costs totaled $21,249,600. These costs cover all programs administered by the Office; however, most of these costs are attributable to the programs covered by this analysis. In addition, a revolving fund for loan collections expended $8,758,200, and contractual costs for the programs under consideration totaled $36,285,400. OSFA headquarters and regions employed a total of 761 FTE employees during that year to administer student aid programs.

3.1.2 FINDINGS

Total appropriations for Title IV programs rose steadily from FY 1976 to 1982, with decreases requested for 1983 and 1984. Figures 3.1-1 and 3.1-2 indicate the trends in Title IV appropriations by program. As of 1982, total Title IV appropriations exceeded $6 billion. However, most of these expenditures represent aid received by students or subsidies paid to intermediary participants such as lenders

FIGURE 3.1-1

TITLE IV STUDENT FINANCIAL AID
HISTORICAL APPROPRIATIONS BY FISCAL YEAR

Appropriation ($ in Millions)

	1976	1977	1978	1979	1980	1981
Campus-Based:						
NDSL (FCC Only)	$ 321.0	$ 310.5	$ 310.5	$ 310.5	$ 286.0	$ 186.0
(TC/Loans)	6.9	12.7	15.2	18.4	14.8	14.8
CW-S	390.0	390.0	435.0	550.0	550.0	550.0
SEOG	240.1	249.6	270.0	340.1	370.0	370.0
SSIG	44.0	60.0	63.8	76.8	76.8	76.8
Pell (BEOG)	1,325.8	1,903.9	2,160.0	2,431.0	2,157.3	2,604.0
GSL	807.8	357.3	480.0	958.0	1,609.3	2,535.5
TOTAL	$ 3,137.7	$ 3,283.7	$ 3,734.5	$ 4,684.8	$ 5,064.2	$ 6,079.1

Source: U.S. Department of Education.

FIGURE 3.1-2
TITLE IV STUDENT FINANCIAL AID
RECENT AND REQUESTED APPROPRIATIONS
BY FISCAL YEAR
(IN THOUSANDS OF DOLLARS)

Program	1982 Appropriation	1983 Revised Request	1984 President's Budget
Campus-Based:			
NDSL	$ 193,360	$ 193,360	$ 4,000
CW-S	528,000	540,000	850,000
SEOG	355,400	355,400	-0-
SSIG	73,680	60,000	-0-
Pell (BEOG)	2,419,040	2,419,040	2,713,800
GSL	3,073,846	2,200,500	2,047,100
Total	$6,643,326	$5,768,300	$5,614,900

Source: U.S. Department of Education, The Fiscal Year 1984 Budget, January 31, 1983, p. 35.

and state guarantee agencies (GAs). Appropriations for Federal administrative costs represented approximately 1 percent of total program costs in 1982.

"Summary Report by Object Class: Administrative Funds." U.S. Department of Education, January 7, 1983

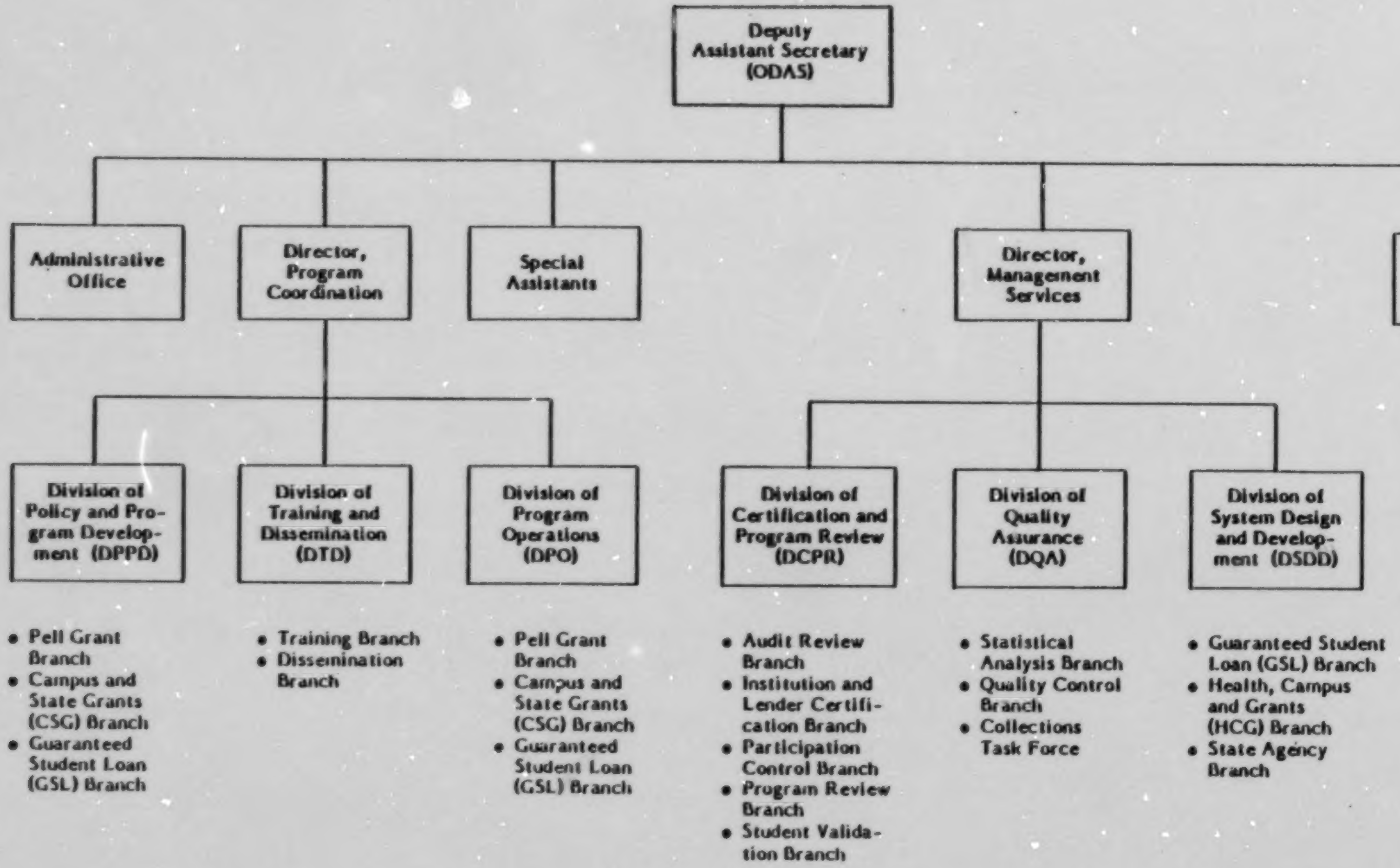
Unfortunately, administrative cost data are not collected by program. All Title IV programs, as well as collections activities for the Cuban Loan Program and Law Enforcement Education Program, are administered on the Federal level by the Office of Student Financial Assistance (OSFA), U.S. Department of Education (ED). Title IV programs include the State Student Incentive Grant (SSIG), Federal Insured Student Loan (FISL), and PLUS (loans to parents) programs, as well as the programs which are the focus of this analysis--Pell, GSL and Campus-Based. Wherever possible, this report uses data relevant to the latter programs only. However, in most cases these data are not separately available. The majority of the information in this report relates to all of the programs administered by OSFA during fiscal year 1982.

The Office of Student Financial Assistance encompasses six divisions, as well as the Office of the Deputy Assistant Secretary (ODAS). An organizational chart is presented in Figure 3.1-3. These divisions are functional units, frequently subdivided into branches that represent each of the major programs. Three divisions have primary responsibility for program delivery: Division of Program Operations (DPO), Division of Policy and Program Development (DPPD), and Division of Certification and Program Review (DCPR). These divisions are supported by the Divisions of Quality Assurance (DQA), System Design and Development (DSDD), and Training and Dissemination (DTD). In addition, OSFA has offices in each of the ten Federal regions. These regional offices have responsibility for certification and program review, training and dissemination, and claims and collections. The largest regional expenditures are related to certification and program review, followed closely by claims and collections activities if reimbursable collections expenditures are excluded. Total administrative costs for OSFA headquarters and regional offices were approximately $20 million in fiscal year 1982, not including large contractual costs and, as mentioned above, the revolving fund for loan collections. These costs do include expenditures on salaries and benefits, office supplies and

FIGURE 3.1-3

ORGANIZATION CHART
OFFICE OF STUDENT FINANCIAL ASSISTANCE

FISCAL YEAR 1982


Deputy Assistant Secretary (ODAS)
Administrative Office
Director, Program Coordination
Special Assistants
Director, Management Services
Regional Offices
Division of Policy and Program Development (DPPD)
Division of Training and Dissemination (DTD)
Division of Program Operations (DPO)
Division of Certification and Program Review (DCPR)
Division of Quality Assurance (DQA)
Division of System Design and Development (DSDD)
• Pell Grant Branch
• Campus and State Grants (CSG) Branch
• Guaranteed Student Loan (GSL) Branch
• Training Branch
• Dissemination Branch
• Pell Grant Branch
• Campus and State Grants (CSG) Branch
• Guaranteed Student Loan (GSL) Branch
• Audit Review Branch
• Institution and Lender Certification Branch
• Participation Control Branch
• Program Review Branch
• Student Validation Branch
• Statistical Analysis Branch
• Quality Control Branch
• Collections Task Force
• Guaranteed Student Loan (GSL) Branch
• Health, Campus and Grants (HCG) Branch
• State Agency Branch

equipment, building maintenance, small contracts, and other related expenditures. Contractual costs are primarily for data processing, the majority of these expenditures are for the Pell Grant program. In 1982, contractual costs related to Title IV programs totaled about $36 million. In addition, the Student Loan Insurance Fund (SLIF) pays for FISL (and some NDSL) loan collections out of an "off-budget" revolving fund. Up to $10.5 million of collections can be returned to the fund annually to pay for collections activities. In FY 1982, SLIF expended approximately $9 million in administrative costs. Figures 3.1-4, 3.1-5, 3.1-6, and 3.1-7 present all of the above administrative costs, broken down by operational unit.

Excluding payments to contractors, most administrative costs are for personnel-related expenditures. For example, 89 percent of OSFA headquarters expenditures were for employee compensation, and 9 percent were for benefits. Figure 3.1-8 illustrates the breakdown of employees by organizational unit.

"A Report on Personnel Management in the Department of Education," U.S. Office of Personnel Management, July 1981

The effectiveness of OSFA's use of personnel resources has been questioned in the past. In 1981, the Office of Personnel Management issued a report on personnel practices in the Department of Education, during the period when it first became a Department. OPM interviewed ED personnel and reported the following findings related to OSFA:

- There is inadequate headquarters leadership, leading to a lack of overall direction, coordination of programs, and systems integration, and the duplication of effort. Reorganization of the office into functional units has not resolved this problem, although some managers have made important improvements within their areas.

- OSFA personnel do not always have the qualifications necessary for their jobs. For example, OSFA relies heavily on contractors, but its personnel is not adequately trained to monitor ADP systems. The Office also lacks trained accountants.

- Staff resources are not distributed in proportion to the importance of their functions. The report identifies financial management and ADP services as crucial but found the following (Figure 3.1-9) distribution of personnel committed to these functions in FY 1981.

FIGURE 3.1-4

GROSS OBLIGATIONS: SALARIES AND EXPENSES[1]
HEADQUARTERS

OFFICE OF STUDENT FINANCIAL ASSISTANCE[2]
FISCAL YEAR 1982

DIVISION		GROSS OBLIGATIONS: SALARIES AND EXPENSES[3] In Thousands of Dollars	In Percent Of Gross Costs
Office of the Deputy Assistant Secretary	(ODAS)	$ 723.8	7.5%
Division of Policy and Program Development	(DPPD)	1,872.2	19.3%
Division of Training and Dissemination	(DTD)	816.6	8.4%
Division of Program Operations	(DPO)	3,280.6	33.9%
Division of Quality Assurance	(DQA)	284.1	2.9%
Division of Certification and Program Review	(DCPR)	2,255.5	23.3%
Division of System Design and Development	(DSDD)	457.0	4.7%
	TOTAL	$ 9,689.8	100.0%

Source: Summary Report by Object Class - Administrative Funds, U.S. Department of Education, January 7, 1983, pp. 219-226.

[1] This chart does not include major contractual or SLIF costs. See Figures 3.1-5 and 3.1-6 for these costs.

[2] This chart includes all OSFA activities, not just those related to Title IV programs.

[3] Gross obligations include compensation and benefits for current employees, travel, office supplies and equipment, minor contractual costs, and miscellaneous other expenditures.

FIGURE 3.1-5

GROSS OBLIGATIONS: SALARIES AND EXPENSES[1]
REGIONAL OFFICES[2]

OFFICE OF STUDENT FINANCIAL ASSISTANCE[3]
FISCAL YEAR 1982

FUNCTION	REGION OBLIGATIONS (IN THOUSANDS OF DOLLARS)										
	I	II	III	IV	V	VI	VII	VIII	IX	X	TOTAL FOR FUNCTION
Administrator's Office	$141.8	$124.5	$223.2	$ 332.1	$ 218.0	$ 176.1	$122.7	$320.2	$ 260.3	$159.4	$ 2,078.3
Certification and Program Review	615.1	443.4	554.4	542.7	585.5	567.2	244.3	425.3	529.1	165.6	4,672.6
Training and Dissemination	50.5	-0-	-0-	245.3	124.8	143.7	-0-	-0-	299.9	37.9	902.1
Data Management Support	-0-	-0-	-0-	50.2	119.4	29.8	-0-	-0-	34.9	3.5	237.8
Claims and Collections	-0-	11.0	76.8	753.2	730.0	289.5	233.8	150.3	1,320.2	43.8	3,608.6
Total for Region[4]	$807.4	$578.9	$854.4	$1,923.6	$1,777.7	$1,206.4	$600.8	$895.8	$2,444.5	$410.3	$ 11,559.8

Source: Summary Report by Object Class - Administrative Funds, U.S. Department of Education, January 7, 1983, pp. 201-206, 231-278.

[1] Gross obligations include compensation and benefits for current employees, travel, office supplies and equipment, contractual costs and miscellaneous other expenditures.

[2] This chart does not include reimbursable SLIF activities. See Figure 3.1-7 for SLIF data.

[3] This chart includes all OSFA activities, not just those related to Title IV programs.

[4] Totals may not add up due to rounding.

FIGURE 3.1-6

CONTRACTUAL COSTS: TITLE IV PROGRAMS

OFFICE OF STUDENT FINANCIAL ASSISTANCE

FY 1982

Contract Title	Division [1]	Program[2]	Dollar Cost (in thousands)
OSFA Contracts			
Printing	DTD	SFA	$ 994.7
Telephone Inquiry Toll Free Number	DTD	SFA	1,134.3
Mailing Contract	DTD	SFA	112.6
Addressing and Mailing Service	DTD	SFA	25.0
Training for Student Financial Aid Administrators, Fiscal Officers, Counselors	DTD	SFA	545.6
OSFA Microfilm	SFA	SFA	244.0
Computer Cost (Central Facility)	SFA (approx. 80% DPO, 20% other)	SFA (approx. 70% Pell, 17% C-B, 1% GSL, 12% other)	1,450.0
Dunn and Bradstreet-Lender Profile Reports	DCPR	SFA	39.8
GSL Terminal Maintenance	DPO	SFA	31.9
Miscellaneous (small purchases)	SFA	SFA	200.0
Program-Specific Contracts			
Pell Data Preparation	DPO	Pell	1,708.9
Pell Application Processing[3]	DPPD/DPO	Pell	13,913.2
Pell Multiple Data Entry	DPPD	Pell	4,968.8
Pell Systems Maintenance	DPO	Pell	1,127.0
Pell Quality Control	DQA	Pell	2,275.0
GSL Data Processing and Systems Support	DPO	GSL/NDSL (primarily GSL)	3,682.2
GSL Data Preparation	DPO	GSL/NDSL (primarily GSL)	2,200.0
GSL/NDSL Data Support Services/Skip-Trace	DPO	GSL/NDSL (primarily GSL)	900.0
Interagency Agreements	DPO	GSL/NDSL (approx. 50% each)	155.0
Credit Bureau Reporting	DPO	GSL/NDSL(approx. 50% each)	100.0
Campus Based System	DPO	C-B	477.4
Total			$36,285.4

SOURCE: Administrative Office, Office of Student Financial Assistance, U.S. Department of Education.

[1] This column notes the OSFA Division which has primary responsibility for the contract. See the organizational chart for definitions of abbreviations. The notation SFA indicates that the contract cuts across divisions.

[2] This column indicates which program(s) the contract serves. All percentages are approximations. The notation SFA indicates that the contract serves all programs, including non-Title IV student assistance.

[3] This figure is expected to drop to $10 million, due to a recent change in contractors.

FIGURE 3.1-7
GROSS OBLIGATIONS: SALARIES AND EXPENSES[1]
(IN THOUSANDS OF DOLLARS)
SLIF ACTIVITIES[2]
OFFICE OF STUDENT FINANCIAL ASSISTANCE
FISCAL YEAR 1982

		Regions										
	Headquarters	I	II	III	IV	V	VI	VII	VIII	IX	X	Total
SLIF Reimbursables (Revolving Fund)[2]	$937.9	$136.0	$29.5	$28.1	$2,599.8	$2,588.0	$244.2	$-0-	$56.7	$2,128.8	$9.2	$8,758.2

SOURCE: Summary Report by Object Class-Administrative Funds, U.S. Department of Education, April 8, 1983, pp. 437-470.

[1] Gross obligations include compensation and benefits for current employees, travel, office supplies and equipment, contractual costs and miscellaneous other expenditures.

[2] SLIF is the Student Loan Insurance Fund, which is used for collections activities under the Federal Insured Student Loan (FISL) program. Some National Direct Student Loans (NDSL) are also collected under SLIF auspices. It is essentially a revolving fund; at the present time, collections up to $10.5 million are returned to the fund to cover costs.

FIGURE 3.1-8

ESTIMATED NUMBER OF EMPLOYEES (IN FTEs)[1]
OFFICE OF STUDENT FINANCIAL ASSISTANCE[2]
FISCAL YEAR 1982

DIVISION	NUMBER OF FTES
Headquarters	
Office of the Deputy Assistant Secretary (ODAS)	21
Division of Policy and Program Development (DPPD)	62
Division of Training and Dissemination (DTD)	30
Division of Program Operations (DPO)	131
Division of Quality Assurance (DQA)	7
Division of Certification and Program Review (DCPR)	92
Division of System Design and Development (DSDD)	12
Subtotal	355
Regional Offices[3]	406
Total	761

SOURCE: Administrative Office, Office of Student Financial Assistance, U.S. Department of Education.

[1] FTEs are full-time equivalents, including part-time and temporary employees.

[2] This chart includes all OSFA employees, not just employees who work on Title IV programs.

[3] Regional personnel includes 37 FTEs charged to SLIF activities.

FIGURE 3.1-9

OSFA STAFF PER FUNCTION
(1981)

Function	Percent of Headquarters Staff	Average Grade
ADP Systems Management	5	10.8
Debt Collection	2	6.8
Financial Management	13	7.9
Contract Administration	0	N/A

Source: Office of Personnel Management.

These problems were in part due to the newness of the Department and to some extent have since been ameliorated. The Department has taken many steps to remedy these problems over the past couple of years. For example, a performance management system had been implemented, courses have been offered to project officers, and a team concept has been utilized to monitor major contracts. OSFA was also one of the few ED offices to have its personnel ceiling raised for FY83; new personnel will be allocated primarily to operations and systems.

3.1.3 EFFECT BY ACTIVITY

This section discusses the Federal administrative costs that can be attributed to various programs and subsystems. For a full list of the activities within each subsystem, see Appendix A. The first part of this section discusses the distribution of Headquarter's non-contractual efforts, the second discusses contractual costs, and the third discusses regional costs.

OSFA Headquarters

The Department of Education collects cost data by line item and division, rather than by activity or program; therefore, costs per activity cannot be reported. However, Departmental personnel were able to estimate the amount of effort they devote to various activities. For the purposes of this project, the OSFA Administrative Office asked Division and Branch personnel to estimate the amount of effort expended on various activities. The chart in Figure 3.1-10 presents this data in aggregate form. The subsystem titles on this chart refer to the activities listed on

FIGURE 3.1-10
ROUGH ESTIMATES OF PERCENT OF EFFORT PER SUBSYSTEM
OFFICE OF STUDENT FINANCIAL ASSISTANCE HEADQUARTERS
FISCAL YEAR 1982

	1. Pre-Application					2-4. Student Application/ Eligibility Determination/ Benefit Calculation					5. Fund Disbursement					6. Account Reconciliation					All Subsystems
Organizational Units[2] (% of admin costs)	Pell	GSL	C-B	All Progs	Total	Pell	GSL	C-B	All Progs	Total	Pell	GSL	C-B	All Progs	Total	Pell	GSL	C-B	All Progs	Total	Total
ODAS (7.5%):					N/A					N/A					N/A					N/A	100.0%[6]
DPPD (19.3%):																					
Pell Branch	100%				100%					-0-					-0-					-0-	100.0%[6]
GSL Branch[3]		88.5%			88.5%					-0-		3.5%			3.5%		8.0%			8.0%	100.0%[7]
CSG Branch[4]			71.0%		71.0%			3.0%		3.0%			5.0%		5.0%			21.0%		21.0%	100.0%[8]
DTD (8.4%):																					
Training Branch	55.0%	15.0%	30.0%		100.0%					-0-					-0-					-0-	100.0%[7]
Dissemination Branch	33.3%	33.3%	33.3%		100.0%					-0-					-0-					-0-	100.0%[9]
DPO (33.9%):																					
Pell Branch	76.0%				76.0%	10.0%				10.0%	1.0%				1.0%	13.0%				13.0%	100.0%[6]
GSL Branch[3]		48.7%			48.7%		6.3%			6.3%		23.5%			23.5%		21.5%			21.5%	100.0%[6]
CSG Branch[5]			48.0%		48.0%					-0-			5.0%		5.0%			47.0%		47.0%	100.0%[6]
DQA (2.9%):					N/A					N/A					N/A					N/A	100.0%[6]
DCPR (23.3%):	4.5%	17.9%		24.8%	47.2%	18.0%				18.0%					-0-	20.2%	5.6%	9.0%		34.8%	100.0%[7]
DSDD (4.7%):																					
HCG Branch	50%		50%[5]		100.0%					-0-					-0-					-0-	100.0%[6]
GSL Branch[3]		100.0%			100.0%					-0-					-0-					-0-	100.0%[6]

SOURCE: Derived from rough estimates from division and branch personnel; see text for detailed description.

[1] See chart in appendix A for a list of the activities that fall within each of these categories.

[2] The organizational chart in Figure 3.1-3 provides a guide to these abbreviations.

[3] Estimates include the FISL and PLUS programs as well as the state agency program.

[4] Estimates include the SEOG, NDSL, and CW-S as well as the SSIG program.

[5] Estimates include the SEOG, NDSL and CW-S programs only.

[6] Measure used was "percent of time".

[7] Measure used was "total FTEs".

[8] Measure used was "percent of total effort," including time, staff and overhead.

[9] Measure used was "non-clerical FTEs."

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appendix A. These estimates should be approached with extreme caution; they are designed to indicate order of magnitude only. The numbers reported in this chart are based on people's perceptions, rather than on any sort of scientific study. In addition, as is noted in the Figure 3.1-10 footnotes, various respondents used different measures of effort and included different groupings of programs. Although it is reasonable to assume that administrative costs are somewhat proportional to effort, there will not necessarily be a one-to-one correspondence. Costs will depend on the actual salaries of the individual personnel who are involved in the activity, and on the costs of other resources that are used.

Regional Costs

As is illustrated in Figure 3.1-5, regional administration costs totaled approximately $11.6 million in FY 1982. Approximately 40 percent of these costs can be ascribed to lender, guarantee agency, and postsecondary institution certification and program review activities. Claims and collections for the GSL, FISL, and NDSL programs account for approximately 31 percent of regional costs. In addition, as illustrated in Figure 3.1-7, the regions expended $8,738,200 in reimbursable SLIF funds on FISL and NDSL collections. About 8 percent of regional expenditures are for training and dissemination activities. The remaining 21 percent of regional costs cannot be broken down by activity. Regional costs are thus concentrated in the pre-application and account reconciliation subsystems for all programs.

Contractual Costs

By referring back to Figure 3.1-6, it becomes clear that most contracts cut across subsystems. In addition, many contracts overlap the various program components. Contracts that support all programs total $3,501,900, or about 10 percent of contract costs. More than half of these costs can be ascribed to the Information Dissemination and Training Activity within the Pre-Application Subsystem for all three programs.

Pell-related contracts total $25,007,900, or about 69 percent of contract costs. More than half of these costs can be attributed to processing applications from students. Contracts related to the loan programs (including the FISL, PLUS, GSL state agency, and NDSL programs) only total $7,051,700 or around 19 percent of costs. These contracts primarily serve the GSL state agency and FISL programs, and include collections activities for NDSL. Contracts for all Campus-Based programs (excluding the NDSL contracts noted earlier) equal $723,900 or approximately 2.0 percent of costs. Clearly, most contractual costs are related to data processing, and the majority can be ascribed to the Pell program.

In summary, most OSFA non-contractual costs are focused on the pre-application and account reconciliation subsystems, while the majority of contractual costs are focused on Pell application processing. Due to the form in which the data is collected, it is difficult to isolate the most expensive or less expensive activities. However, contractual costs clearly exceed the costs attributable to OSFA headquarters and regional operations.

3.2 FUND FORECASTING (FEDERAL GOVERNMENT)

3.2.1 OVERVIEW

Definition

The GSL and Pell programs are basically entitlement programs. Under the GSL program, loans made to eligible students are entitled to Federal payment of interest during the in-school and grace periods, the Federal special allowance subsidy, and/or the state (or Federal in the case of FISL) loan guarantee. For Pell, eligible students are entitled to the grant amount determined by the award schedule and their costs of attendance.

Because of the entitlement nature of these programs, the Department must estimate in advance the amount of funds needed for the coming award year to establish authorization levels. These forecasts can also be used to inform Congress of the probable costs of various loan subsidy rates, award schedules, and family contribution schedules. The effect "fund forecasting" refers to the ability to accurately establish these estimates. Because the Campus-Based programs are essentially institutional grants, with funding levels determined by political and budgetary considerations (rather than by any attempt to ascertain the aggregate need for such assistance), funding is driven by the amount of Congressional appropriations and the allocation formula. Fund forecasting is thus not relevant to the Campus-Based program. See effect 5.2, "Certainty of Funds" for consideration of the impact of this type of funding on institutions.

It should be noted that intervening variables such as economic conditions have a large impact on the accuracy of forecasts; this effect is driven more by these variables than by delivery system activities.

Summary

Fund forecasting is accomplished through the use of models to estimate Pell and GSL expenditures under a variety of conditions. The accuracy of these forecasts depends largely on the ability of the model to predict intervening variables, such as the number of students who will apply for aid, and, especially for GSL, the economic conditions that will impact interest rates, the availability of loan capital, etc. While there have been some comparative analyses of the accuracy of various cost projection models used for the Pell and GSL programs, these analyses have not been conclusive. The major problem with testing the accuracy of these models is the difficulty of developing accurate assumptions about economic conditions, especially when program costs are projected several years in advance. In addition, it is difficult to assess what a reasonable level of error is for these sorts of estimates. A rough proxy measure of the accuracy of these forecasts is the difference between appropriations and expenditures. In the past, appropriations have generally not equaled expenditures. In 1979 (the last year for which actual data are available) Pell appropriations were 3 percent less than expenditures. It is not possible to make the same calculation for GSL (including FISL and state agency loans), since appropriations are made to the reserve fund to cover payment of claims, as well as interest and special allowance payments.

3.2.2 FINDINGS

The Pell Grant Branch of the Division of Policy and Program Development currently uses a computerized applicant-based model to predict the costs of various award schedules. This model samples prior year applicants and estimates inflation and enrollment trends to estimate future costs. As of 1981, the GSL Branch was using data provided by the state agencies to hand-calculate quarterly estimates of costs. Although numerous other models are available for both programs, they are not used for a variety of reasons.

"Student Financial Aid Microsimulation Models: A Comparative Analysis"
Alan Ginsberg, Charles Byce, and Edward St. John, February 1982

This report analyzed two microsimulation models used in making expenditure forecasts for the Pell program. One of the models studied was the applicant-based model currently used by OSFA to project Pell costs. The report presented the following results concerning the accuracy of the model's forecasts:

- FY 1978 - Model forecast was $1.663 billion, actual expenditures $1.516 billion

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- FY 1979 - Model forecast was $2.191 billion, actual expenditures $2.404 billion
- FY 1980 - Model forecast was $3.006 billion, estimated actual expenditures $2.415 billion

The results indicate the difficulties inherent in forecasting expenditures, with the model forecast differing from program expenditures by 9 percent in FY 1978, 10 percent in FY 1979, and 20 percent in FY 1980. The report is quick to point out, however, two factors that impact the accuracy of the OSFA model, namely:

- High dependence upon the accuracy of the economic inflators derived from external sources desirous of forecasting the achievement of the Administration's economic goals;
- The potential for subjective revision of cost estimates between the work of model analysts and inclusion in the President's Budget, which was the only official version of the model forecast available for comparison with actual expenditures.

"OSFA Program Book" Office of Student Financial Assistance, U.S. Department of Education, July, 1981

Presented in Figures 3.2-1, 3.2-2, and 3.2-3 on the following pages are a series of selected historical program funding statistics for the Pell Grant and GSL programs. The tables contain appropriations, expenditures, number of recipients, average grant or loan amounts, and number of participating institutions or qualifying student applicants by year for each program. The years covered in each table vary depending upon the length of time the program has been in existence. It should be noted that for some years in which program expenditures exceeded appropriations, the expenditure figures include carry-over amounts from prior years.

For the Pell and GSL programs the difference between appropriations and expenditures is a rough proxy for the accuracy of the forecasting process. However, since appropriations sometimes deviate from expenditure forecasts for political reasons, expenditures as compared to appropriations are not a perfect measure of the accuracy of fund forecasting. In addition, appropriations are subject to frequent adjustments. Appropriations will also deviate from expenditure forecasts because of the carry-over of funds between years.

FIGURE 3.2-1

PELL GRANT PROGRAM: SELECTED HISTORICAL STATISTICS

Year	Appropriation (In 000's)	Grants to Recipients (In 000's)	Number of Recipients	Average Grant	Number of Qualifying Applicants
1973	$ 122,100	$ 49,874	185,249	$ 269	268,444
1974	475,000	356,537	573,403	621	681,648
1975	840,200	936,543	1,228,034	763	1,455,187
1976	1,325,800	1,473,814	1,945,454	757	2,258,043
1977	1,903,900	1,587,864	1,863,990	852	2,390,320
1978	2,160,000	1,560,947	1,893,000	825	2,228,603
1979	2,431,000	2,504,912	2,537,875	987	3,029,745
1980 (est.)	1,718,000	2,415,000	2,600,000	893	3,366,000
1981 (proj.)	2,346,000	2,446,000	2,700,000	906	3,750,000

Source: OSFA Program Book, p. 26.

FIGURE 3.2-2

GUARANTEED STUDENT LOAN PROGRAM:
SELECTED HISTORICAL STATISTICS

Year	Appropriations (In Millions)(A)	Amount Committed (In Millions)	Number of Loans (In 000's)	Average Loan	Interest Paid (In 000's)	Special Allowance Paid (In 000's)
1966	$ 10	$ 73	89	$ 820		-
1967	46	244	287	850	$ 5,422	-
1968	40	428	490	873	20,989	-
1969	75	674	756	892	46,409	-
1970	73	811	863	946	80,473	$ 4,955
1971	161	1,015	1,017	998	129,923	16,552
1972	209	1,274	1,201	1,061	171,708	18,123
1973	292	1,171	1,030	1,137	203,300	33,200
1974	309	1,139	938	1,215	222,200	85,000
1975	580	1,298	991	1,311	209,544	126,812
1976 (B)	808	1,828	1,298	1,408	253,321	96,827
1977	357	1,537	973	1,581	225,306	105,889
1978	480	1,959	1,085	1,806	248,604	194,540
1979	958	2,984	1,510	1,977	295,844	401,385
1980	1,609	4,840	2,314	2,091	385,964	694,638
1981 (est.) (C)	1,913	5,100	2,800	1,821	546,751	1,090,844

(A) Consist of funds added to the Student Loan Insurance Fund for payment of Interest, Special Allowance and Claims. Does not include $77 million in Advance Reserve Funds distributed to States participating in GSL over the years. Cumulative through September 30, 1979.

(B) Includes funds for Parent Loans for Undergraduate Students Program (PLUS)

FIGURE 3.2-3

GUARANTEED STUDENT LOAN PROGRAM[1]
EXPENDITURES
FY 1979 and 1980[3]
(dollars in millions)

	FY 79	FY 80
Interest Benefits	$ 297	$ 386
Special Allowance	340	695
Administrative Cost Allowances	14	24
System Operations Cost	6	5
Federal Insured Claims	108	92
State Agency Claims	125	154
Loan Advances	32	7
Other	10	4
Total[2]	933	1,366

Source: OSFA Program Book, p.,36.

[1] Includes the FISL, state agency, and PLUS programs.

[2] Totals may not sum due to rounding.

[3] Data subject to change.

3.2.3 EFFECT BY ACTIVITY

The effect Fund Forecasting is directly related to the accuracy of the models used to forecast program expenditures within the Pell and GSL Pre-Application Subsystems. However, the accuracy of these forecasts is determined more by the intervening variables (i.e, student decisions about applying for aid, inflation rates) associated with each activity, than by the activity itself. These intervening variables are reported in a previous document: "The General Assessment Model." For these reasons, no breakdown of the effect by activity is presented.

3.3 FUND CONTROL (FEDERAL GOVERNMENT)

3.3.1 OVERVIEW

Definition

Fund control is actually a composite of several related indicators or proxy measures. One component of fund control is miscalculation/error. It refers to mistakes made by the Federal government itself, or by other participants who are transferring information or funds to the Federal government. This effect includes errors which influence the determination of student eligibility and/or the amount of disbursements and receipts, as well as the ability to capture and correct these errors. These mistakes may be in the form of data items which are inaccurate or of mathematical or other miscalculations, and may have a positive or negative effect on the government. Fund control also refers to the float or deficit between fund receipts and expenditures, i.e., the degree to which funds are received by institutions immediately prior to the time when they are to be disbursed. Fund control also refers to the government's ability to track and account for funds, and default and collections rates.

Summary

Recent studies related to fund control have focused primarily on miscalculation and error in Pell application processing. Data collected on error rates related to Pell application processing indicate that there are significant net overawards in the Pell program. These findings also lead to the conclusion that similar problems may exist in the GSL and Campus-Based programs. Validation appears to have only a marginal effect on capturing and reducing these errors.

Over the past few years, the Federal government has significantly improved other aspects of fund control in the Pell program. A number of reports have heavily criticized fund control in the GSL program, and the Department is currently in the process of designing procedures to also rectify these problems. Fund control in the Campus-Based program is primarily the responsibility of participating schools, and varies greatly depending on the adequacy of the procedures utilized by individual institutions.

3.3.2 FINDINGS

"Quality in the Basic Grant Delivery System, Vol. 1,"
Advanced Technology, Inc. and Westat, Inc.,
U.S. Department of Education, April, 1982.

This study was conducted for the 1980-81 Pell Grant program year, and its findings are based on multi-faceted data collection from a scientifically selected sample of over 4,000 Pell Grant recipients. The purpose of this study was to conduct a detailed analysis of error by recipients, institutions, and aid processors in the Pell program. The major results of the study are presented under Effect 7.5, Miscalculation/Error for Applicants/Families. However, since all errors occuring in the delivery system impact Federal fund control to some degree, a summary of these findings are presented below:

- Student error was found in 41 percent of the cases with a mean net error of $254 per recipient amounting to total net student error of $246 million.
- Institution error was found in 37 percent of the cases with a mean net error of $14 per recipient amount to total net institution error of $10 million (these figures do not include SEP/FAT error).
- Program eligibility errors were identified in 1.3 percent of the cases.
- Substantial discrepancies were determined to exist on individual application items.
- Marginal impact of errors in reported adjusted gross income alone were $101 million.
- Errors in determining enrollment status occurred in 18.1 percent of cases.
- Data entry errors made by MDE processors were insignificant.

Those results not only indicate substantial error in the Pell program but may also be indicative of errors being committed in the GSL and Campus-Based programs. Since similar eligibility requirements are similar in all programs, the 1.3 percent error rate in program eligibility can probably be used as an approximation of the magnitude of this problem in the GSL and Campus-Based programs.

Errors in enrollment status, adjusted gross income, and other application items may also affect the accuracy of eligibility determination or award amounts in the Campus-Based or GSL programs. However, due to the variation in applicant characteristics, as well as in institutional, lender and state agency practices, this sort of extrapolation should be approached with caution.

One method used by the Federal government to attempt to reduce errors in the Pell program is validation. Figure 3.3-1 presents an analysis of the effectiveness of validation in reducing student error. Effectiveness may be measured in terms of the mean Student Eligibility Index (now called the Student Aid Index) changes generated by student corrections during a given period of time--in this case, the period between selection of an institution for participation in this QC study and data collection on site. During this period, nonvalidated students submitted corrections that decreased the SEI (indicating increased financial need) by an average of 35.9 points. During the same period, randomly validated students submitted changes that increased the SEI by an average of 8.2 points, and students selected by pre-established criteria (PEC) submitted changes that increased the SEI by an average of 17.2 points. Therefore, assuming that all post-validation corrections occurred because of the validation, an upper bound on the effectiveness of validation is established as 44.1 SEI points, the difference between the +8.2-point SEI change for randomly validated students and the -35.9 point SEI change for nonvalidated students. PEC selection increased effectiveness by an additional 9 points.

Another measure of the effectiveness of validation in reducing student error may be inferred from the following student error figures, reported in the QC study, as presented in Figure 3.3-2. Because the randomly selected and non-validated samples are both approximately representative of the overall recipient population, the difference between the $113 award error found among non-validated students and the $79 error remaining after random validation may be attributed to validation itself. Thus, it may be estimated that validation reduces overawards due to student error by an average of $34, but leaves remaining overawards averaging $79. The fact that PEC validated students had higher net error than nonvalidated students may be because the PEC selection criteria effectively identified extremely error-prone individuals, and even after validation removed some error there was still a substantial amount of error remaining.

FIGURE 3.3-1

ABSOLUTE AND NET EFFECTIVE SEI CHANGE

(1980-1981)

	OVERALL MEAN CHANGE	CATEGORICAL MEAN DECREASE	NO CHANGE	INCREASE
All Validated Cases				
Absolute	81.0	357.4	0	283.5
Net	15.9			
N	1022	93	754	175
(%)	(100.0)	(9.1)	(73.8)	(17.1)
All Non-validated Cases				
Absolute	46.6	653.8	0	279.3
Net	-35.9			
N	3256	203	2996	57
(%)	(100.0)	(6.2)	(92.0)	(1.8)
Random Validated Cases				
Absolute	68.1	366.2	0	312.3
Net	8.2			
N	159	13	126	20
(%)	(100.0)	(8.2)	(79.2)	(12.6)
Cases Meeting PECs				
Absolute	82.6	356.0	0	276.8
Net	17.2			
N	871	80	634	157
(%)	(100.0)	(9.2)	(72.8)	(18.0)

Source: Quality in the Basic Grant Delivery System, Vol. 1, pg. 7-7.

FIGURE 3.3-2

MEAN ERROR BY VALIDATION CRITERIA
(1980-1981)

Student Category	Mean Error After Adjustments from Validation (Net Overaward)
Nonvalidated	$ 113
PEC-selected validation	146
Randomly selected validation	79

Source: Quality in the Basic Grant Delivery System, Vol. 1, pg. 7-12 to 7-14.

"Preliminary Report on the Assessment of 1982-83 Pell Grant Validation Procedures," Advanced Technology, Inc. and Westat, Inc., U.S. Department of Education, February 1983.

The Department instituted a dramatic change in Pell Grant validation procedures for the 1982-83 program year. The proportion of applicants selected for validation was 100 percent during the earlier phase of the grant year. This early assessment report indicated fairly high levels of institutional compliance, which is expected to reduce payment error in the 1982-83 program year. A more complete analysis of the impact of validation will be completed in late 1983.

For the 1983-84 program year the Department has instituted two additional criteria for selecting cases to be validated: error-prone modeling and cross-year criteria. It is expected that these methods, in conjunction with updated and revised Pre-Established Criteria (PEC), will increase the effectiveness of validation. A task force is currently developing an evaluation framework and data assessment for the 1984-84 processing year. The Department is also considering extending validation requirements to the GSL and Campus-Based programs.

"Validation, Edits, and Application Processing,"
Applied Management Sciences, Inc., U.S. Department of Education, July 1980.

This study was designed to evaluate the effectiveness of ED's quality assurance procedures designed to reduce student error on applications for aid for the 1979-80 school year. Estimates were based on analysis of past validation corrections submitted by a 10 percent sample of the 3.9 million applicants for that year, including one of every two selected according to ED's pre-established criteria (PECs) and a randomly selected 1-in-14 sample of other applicants. Figure 3.3-3 indicates that PEC's substantially improve ED's ability to select error-prone applications.

FIGURE 3.3-3

THE EFFECT OF VALIDATION SELECTION CRITERIA
(1979-1980)

	PEC-Selected Sample	Randomly Selected Sample
% of Applicants Correcting Any Field	38%	29%
Average SEI Change	128	37
% of Applicants Correcting Critical Field	32%	23%
Ratio of Applicants Raising SEI to Lowering SEI	3/1	1.7/1

Source: Validation, Edits and Application Processing.

Pell Grant Disbursement Data

One baseline measure of the effect of the current delivery system on Federal fund control in the Pell program is the amount of funds authorized to schools by the government and not yet disbursed to students, or "float." If the amount of float is large then the Federal government is incurring costs (e.g., interest on borrowed funds) in providing funds to institutions before they are actually required for disbursement to students. If the amount of float is extremely small or negative, then institutions may not have sufficient funds to disburse to students. Controlling float is extremely difficult in the Pell program given the entitlement nature of the program and the fact that, for the vast majority of students, the institution acts as an intermediary in the disbursement of funds to students. Because of these factors, institutions must be authorized funds before they are needed for disbursement to students, and therefore, the Federal government is in the difficult position of having to estimate institutions' future funding requirements. The amount of float is dependent on the accuracy of these estimates.

There are two systems for disbursing funds in the Pell program. The Regular Disbursement System (RDS), which provides funds for approximately 99 percent of Pell recipients, authorizes funds to institutions which then distribute them to students after receiving Student Aid Reports (SAR) from the recipients. The remainder of the Pell recipients receive their grants directly from the Federal government through the Alternate Delivery System (ADS). It is up to the individual institutions to choose participation in one of these systems, the ADS system is mostly made up of small proprietary institutions.

Under RDS, institutions receive an initial authorization of funds prior to the start of the academic year. This initial authorization represents a percentage (usually between 40 and 50 percent) of the estimate made by the Department of Education of the funds required by that institution for the year. During the year institutions are required to file three scheduled Progress Reports (October, February, and June). These Progress Reports contain information concerning the institution's utilization of the program and requests for additional funding. In addition, institutions can file ad hoc Progress Reports if they require additional funds before the next scheduled Progress Report. However, the Progress Report is not an ideal measure of institutional needs. Many students do not submit their SARs until well into the academic year, so schools must estimate their needs based on rosters from the central and MDE processors.

In this report, float is being measured as the difference between an institution's authorization and expenditures as of the three scheduled Progress Reports. Authorizations instead of institutional drawdowns of funds are used to represent when funds are transferred from Federal to institutional control for theoretical and practical reasons. In a theoretical sense the transfer of control over the funds represents the point at which opportunity costs begin to accrue to the Federal government, and this occurs with the authorization to the institution regardless of when the institution actually draws down the funds. Practically speaking, given the fact that information on institutional drawdowns are not broken down by program, it is impossible to determine precisely when an institution actually draws down Pell funds. Expenditures are used to measure when institutions disburse funds to students because information on individual student disbursement is unobtainable. Float is measured as of the three scheduled Progress Reports because these are the only available required reports that contain information on expenditures and authorizations.

The following two tables present the different measures of float as of the October, February, and June Progress Reports broken down by five institutional categories. Figure 3.3-4 subtracts net expenditures from the current ED approved authorization as reported on each of the three Progress Reports. This gives an indication of the dollar amount of float in the program at these points in time. As one would expect, the greatest amount of float occurs in October and February with little float remaining by June. Comparisons between types of school are hard to make because of the differences in size. Figure 3.3-5 divides net expenditures by the current ED approved authorization as reported on the October, February, and June Progress Reports. This table allows for a comparison of float by type of school because it controls for the difference in size between schools.

Several things should be kept in mind when analyzing the tables. The first is that they represent snapshots taken at particular points in time and therefore, the amount of float at certain points between Progress Reports may be very different than the float calculated in the tables. In most cases the amount of float measured at the scheduled Progress Report will be at a minimum, since until the submission of the scheduled report expenditures will be increasing in relation to a final authorization. The exception to this will be cases where institutions found it necessary to submit ad hoc reports before the next scheduled report because of a lack of funds. Moreover, net expenditures reported on Progress Reports are not, according to instructions, supposed to exceed authorization. Thus, where expenditures are less than authorization, the difference might be considered float. The converse is not

FIGURE 3.3-4

MEAN AND SUM DOLLAR DIFFERENCE OF AUTHORIZATIONS MINUS EXPENDITURES BY PROGRESS REPORT PERIOD AND INSITUTION TYPE

Institution Type	October P.R.			February P.R.			June P.R.		
	N	Mean (000)	Sum (Millions)	N	Mean (000)	Sum (Millions)	N	Mean (000)	Sum (Millions)
1979-80									
Four Year Public	480	$ 416	$ 200	482	$ 314	$ 151	476	$ 39	$ 19
Four Year Private	1,080	$ 110	$ 118	1,120	$ 64	$ 71	1,115	$ 4	$ 5
Two Year Public	913	$ 134	$ 122	921	$ 108	$ 100	913	$ 19	$ 17
Two Year Private	395	$ 26	$ 10	404	$ 22	$ 9	401	$ 2	$ 1
Proprietary	1,782	$ 32	$ 56	1,831	$ 35	$ 63	1,845	$ 9	$ 17
Total	4,050	$ 109	$ 507	4,758	$ 83	$ 394	4,750	$ 12	$ 59
1980-81									
Four Year Public	482	$ 328	$ 158	482	$ 260	$ 125	474	$ 19	$ 1
Four Year Private	1,118	$ 52	$ 58	1,131	$ 48	$ 54	1,105	$ -1	$ -2
Two Year Public	919	$ 54	$ 49	920	$ 93	685	913	$ 15	$ 14
Two Year Private	404	$ 10	$ 4	405	$ 22	$ 9	392	$ 3	$ 1
Proprietary	4,854	$ 20	$ 30	1,882	$ 31	$ 58	2,893	$ 8	$ 14
Total	4,777	$ 64	$ 306	4,820	$ 69	$ 331	4,777	$ 8	$ 37
1981-82									
Four Year Public	477	$ 366	$ 175	479	$ 207	$ 99	288	$ 57	$ 2
Four Year Private	1,131	$ 78	$ 88	1,134	$ 38	$ 43	779	$ 9	$ 7
Two Year Public	916	$ 91	$ 83	920	$ 88	$ 81	646	$ 21	$ 14
Two Year Private	390	$ 25	$ 10	390	$ 18	$ 7	295	$ 3	$ 1
Proprietary	1,924	$ 28	$ 54	1,964	$ 35	$ 69	1,132	$ 12	$ 14
Total	4,838	$ 25	$ 410	4,887	$ 61	$ 299	3,140	$ 17	$ 52

FIGURE 3.3-5

MEAN OF AUTHORIZATIONS DIVIDED BY EXPENDITURES BY PROGRESS REPORT PERIOD

Institution Type	October P.R.		February P.R.		June P.R.	
	N	Mean	N	Mean	N	Mean
1979-80						
Four Year Public	478	2.83	481	1.25	476	1.03
Four Year Private	1,066	1.74	1,120	1.16	1,115	1.03
Two Year Public	902	2.56	918	1.43	913	1.05
Two Year Private	371	2.35	397	1.8	397	1.07
Proprietary	1,719	3.55	1,804	1.97	1,836	1.91
Total	4,536	2.76	4,720	1,58	4,737	1.38
1980-81						
Four year Public	477	2.34	481	1.23	474	.02
Four Year Private	1,097	1.33	1,131	1.16	1,104	1.00
Two Year Public	910	1.01	919	1.38	913	1.06
Two Year Private	376	1.82	400	1.41	391	1.02
Proprietary	1,793	2.30	1,857	1.66	1,879	1.14
Total	4,653	1.90	4.788	1.43	4,761	1.07
1981-82						
Four Year Public	474	1.50	479	1.18	288	1.03
Four Year Private	1,113	1.60	1,132	1.16	779	1.02
Two Year Public	910	2.06	918	1.38	645	1.07
Two Year Private	1.847	2.56	1,944	1.67	1,127	1.26
Proprietary	1,847	2,56	1,944	1.67	1,127	1.26
Total	4,717	2.11	4,859	1.42	3,132	1.12

Source: Pell Grant Disbursement Data, 4-59.

necessarily true; i.e, the absence of net expenditures in excess of authorization does not necessarily mean that institutions had all the authority to draw funds they needed. Unfortunately, the available data cannot identify the shortfall aspects of the question, except by extrapolation (See 5.3, Fund Control, Institutions). The data collected during our site visits and testimony at the public hearings suggest that there is a shortfall problem at many schools, and further that it takes a substantial amount of time to get adjustments made so that additional funds can be drawn down. According to the Department, it takes approximately 3 to 4 weeks to process Progress Reports, and to make the necessary adjustments. However, some schools have reported elapsed time up to six weeks.

A second point that should be made concerning the figures presented in the chart is that no optimal level of float can be computed to compare against the reported figures. This means that it is difficult to say if there is too much or too little float in the program. Obviously if float was zero then institutions would begin to run short of funds, and if float were $1 billion then a savings could be realized by tightening authorizations. Given currently available data it is difficult to say much more concerning the current level of float in the Pell program.

"Savings in Basic Grant Program Operations."
Basic Grant Branch, Division of Program Operations,
and Advanced Technology, Inc., U.S. Department of Education, January 8, 1982.

This report analyzes several key measures of fund control for the Pell program. Two of the most useful measures in terms of determining the magnitude of fund control are cross-year comparisons of float and the amount of funds deobligated or recovered through institutional account reconcilations.

Data comparing the gross amount of float in Pell authorizations to institutions during the 1979-80 and 1980-81 award years indicated a major improvement in fund control due to new management changes introduced in November, 1979. Authorizations were decreased at the beginning of the 1980-81 award year by nearly 30 percent, resulting in an initial distribution of only $1 billion, as opposed to $1.4 billion in 1979-80. Federal DPO staff also monitored institutional requests for additional funds closely throughout the year. These steps resulted in the obligation of far less funds in excess of institutional need during the 1980-81 award year than in 1979-80, even though total expenditures for the program were approximately the same in both years. The effect of these steps is an estimated savings of almost $21 million in interest costs (see Figure 3.3-6).

With regard to the reconciliation of institutional accounts, the study found that prior to November 1979, little progress had been made towards reconciling and closing institutional Pell fund accounts. Only 23 percent of the accounts for the six pervious award periods had been reconciled. Since November of 1979, an additional 24,461 Pell fund accounts had been reconciled and closed (as of the date of the report)--resulting in a total of 98 percent of all accounts being closed. Deobligations (or recoveries) resulting from the reconcilition of accounts since November 1979 exceeded $66 million (see Figure 3.3-7).

Credit Management Board

During the current administration, a Credit Management Board was created to improve the Department's credit management practices. This Board is chaired by the Comptroller, and is comprised of high level Department officials. It is staffed by the Credit Management Improvement Staff.

Of the many projects the Board has undertaken, three are of particular importance in improving fund control for the programs covered by this project. First, the redesign of the current delivery system, of which this project is a major component, is currently being done under the auspices of the Board. Second, the Board has overseen an effort to resolve a large backlog of audits, primarily related to Office of Student Financial Assistance activities. Data on audit resolution is presented in Figure 3.3-8.

Third, under the Debt Collection Act, the Department has begun to assign defaulted student loans to collection agencies. In addition, the Board has developed specifications to improve debt collection within the Department.

FIGURE 3.3-6

REDUCTIONS IN TOTAL INITIAL PELL AUTHORIZATIONS TO INSTITUTIONS AND SAVINGS RESULTING FROM DECREASED INTEREST COSTS, BY MONTH: 1980-81 COMPARED TO 1979-80

Month	Difference*	1980-81 Monthly Interest Rate**	Savings
July	$422,427,000	0.00677	$ 2,859,831
August	402,358,664	0.00772	3,106,209
September	314,434,815	0.00868	2,729,294
October	315,509,087	0.00963	3,038,353
November	260,149,944	0.01162	3,022,942
December	54,461,819	0.01309	712,905
January	104,068,727	0.01227	1,276,923
February	102,819,000	0.01172	1,205,039
March	91,877,000	0.01067	980,328
April	52,886,000	0.01141	603,429
May	35,596,000	0.01277	454,561
June	47,623,000	0.01322	629,576
			$ 20,619,390

* These figures show the difference between funds authorized in 1980-81 as compared to funds in 1979-80.

** Interest rates are based on average short-term Treasury Bill costs during the month.

SOURCE: Savings in Basic Grant Program Operations.

FIGURE 3.3-7

COMPARISON OF PELL FUND SAVINGS DUE TO ACCOUNT RECONCILIATIONS AND CLOSINGS PRIOR TO END FOLLOWING NOVEMBER 1979

	Final Authorization	Previous Authorization	Recovery
Closed Before 11/23/79	$ 183,220,460	$ 195,953,104	$12,732,644
Closed On or After 11/23/79	$6,965,787,468	$7,031,819,196	$66,031,728
Total	$7,149,007,928	$7,227,772,300	$78,764,372

SOURCE: Savings in Basic Grant Program Operations.

FIGURE 3.3-8
AUDIT CLOSURE DATA
U.S. DEPARTMENT OF EDUCATION

		FY 1982												FY 1983				
		OCT 81	NOV 81	DEC 81	JAN 82	FEB 82	MAR 82	APR 82	MAY 82	JUN 82	JUL 82	AUG 82	SEPT 82	OCT 82	NOV 82	DEC 82	JAN 83	FEB 83[1]
TOTAL UNRESOLVED AUDITS AT END OF MONTH		3,265	2,339	1,466	1,617	1,749	1,624	1,595	1,587	1,353	993	691	548	492	478	520	570	856
	OSFA	(3,179)	(2,241)	(1,365)	(1,513)	(1,639)	(1,476)	(1,425)	(1,428)	(1,202)	(843)	(556)	(419)	(355)	(341)	(375)	(435)	(707)
	Other	(86)	(98)	(101)	(104)	(110)	(148)	(170)	(159)	(151)	(150)	(135)	(129)	(137)	(137)	(145)	(135)	(149)
UNRESOLVED AUDITS UNDER SIX MONTHS		1,337	998	893	1,082	1,280	1,460	1,469	1,456	1,237	863	547	418	329	340	365	437	736
	OSFA	(1,262)	(923)	(822)	(1,002)	(1,192)	(1,338)	(1,322)	(1,332)	(1,108)	(735)	(432)	(310)	(227)	(239)	(269)	(346)	(627)
	Other	(75)	(75)	(71)	(80)	(88)	(122)	(147)	(134)	(129)	(128)	(115)	(108)	(102)	(101)	(96)	(91)	(109)
UNRESOLVED AUDITS OVER SIX MONTHS		1,928	1,341	573	535	469	164	126	131	116	130	144	130	163	138	155	133	120
	OSFA	(1,917)	(1,318)	(543)	(511)	(447)	(138)	(103)	(106)	(94)	(109)	(124)	(109)	(128)	(102)	(106)	(89)	(80)
	Other	(11)	(23)	(30)	(24)	(22)	(26)	(23)	(25)	(22)	(22)	(20)	(21)	(35)	(36)	(49)	(44)	(40)
AUDITS RECEIVED DURING MONTH		222	135	158	367	464	376	261	197	144	85	74	79	63	99	130	168	365
	OSFA	(204)	(117)	(143)	(348)	(435)	(317)	(224)	(183)	(124)	(69)	(66)	(47)	(47)	(84)	(109)	(158)	(338)
	Other	(18)	(18)	(15)	(19)	(29)	(59)	(37)	(14)	(20)	(16)	(8)	(32)	(16)	(15)	(21)	(10)	(27)

[1] As of March, 1983, all outstanding audits over 6 months old were resolved.

Source: Credit Management Improvement Staff.

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GSL and NDSL Defaults and Collections

Another important aspect of fund control is the ability to control default rates in the loan programs, and to collect on defaulted loans. The state agency component of the GSL program has consistently performed better along these dimensions than the FISL component. For example, in 1981, the cumulative net default rate (adjusted for collections) was 9.1 percent for FISL loans and 3.7 percent for state guaranteed loans. Because the FISL program has decreased rapidly in importance due to the increase in the number of state agencies, control over defaults and collections should continue to improve. For more information on GSL defaults and collections, see Chapter 4, State Effects, and Chapter 6, Lender/Note-Owner Effects.

In 1980, an average of approximately $15,000 in defaulted NDSL loans were assigned to the Federal government per school, representing approximately 3 percent of all NDSL loans. As a percent of loans in repayment status, total NDSL defaults ranged from 17 percent to 34.4 percent during 1978-79, depending on school type. The rate of NDSL defaults dropped significantly by 1982, in part due to the Federal referral/assignment program, and in part due to increased institutional efforts. For more information on NDSL defaults, see Chapter 5, Postsecondary Institution Effects.

"Adverse Opinion on the Financial Statements of the Student Loan Insurance Fund for the Fiscal year Ended September 30, 1980." U.S. General Accounting Office, July 8, 1982.

This GAO report criticized the internal fiscal controls and accounting practices of the Student Loan Insurance Fund which finances the Guaranteed Student Loan Program. GAO has cited similar problems since 1969 and believes that ED has done little to correct the problems.

Specifically, the report identifies the following deficiencies:

- Control account balances maintained by the Office of Financial Management could not be reconciled with subsidiary records in OSFA because the two units used different identification numbers, information in control accounts was not obtained from subsidiary accounts, and essential accounting documents were not controlled.

- Internal control procedures do not exist for several accounts, resulting in financial misstatements.
- Cash transactions are not always recorded in the correct fiscal year.
- Cancelled checks totaling $14 million were added to cash balances before determining whether they were recorded when initially issued.
- Supervisory reviews and other verification procedures were often ineffective.
- The uncollectable portion of insurance premiums receivable was not recorded.
- Procedural errors and miscalculations resulted from clerical attempts to compensate for the inability of the GSL computer system to provide certain information.
- GSL financial transactions are not reported or reconciled to financial records.

In an effort to correct these deficiencies, GAO recommended that:

- All accounting, recordkeeping, and financial statement preparation should be consolidated under the Office of Student Financial Assistance.
- Written accounting procedures should be developed.
- Accounting personnel should be properly trained and supervised.
- Cash transactions should be recorded promptly and manual computations should be verified.
- The results of collection activities should be analyzed to establish loss rate allowances.
- Life-cycle management techniques should be utilized to develop and maintain an adequate computer system.

The report recommends that the following steps be taken to remedy these problems:

- "Establish a process for system design, planning, and other key GSL information system life-cycle management functions."

- "Subject the GSL information system to a total redesign effort. This redesign should include the documentation and validation of the appropriate system controls needed to assure accountability for the expenditure of program funds."
- "Develop comprehensive plans and timetables for completing and implementing a total GSL system redesign."

It should be noted that the Department is in the process of ameliorating many of these problems.

"The Guaranteed Student Loan Information System Needs a Thorough Redesign to Account for the Expenditure of Billions," U.S. General Accounting office, September 24, 1981.

This GAO report analyzes the GSL automated information system that is intended to track transactions in the state agency reinsurance program. The major problems include:

- The Office automatically reinsures state loans without checking to see that they meet Federal regulations.
- Each state lacks access to any history of a student's prior loan activity with other states or with the Federal program to help identify unqualified loan applicants.
- The Office's loan history file, intended as a complete history of Federal and state student loan activity, is incomplete.
- The Office pays claims on defaulted state loans without assuring that these claims are valid.
- The Office cannot provide an up-to-date status of state collections of defaulted loans and related repayments due the Government.
- The Office's program review of states does not compensate for system deficiencies.
- Interest and special allowance payments to lenders are not validated.
- Lenders are not rebilled for insurance premiums past due.

As noted above, the Department is in the process of remedying many of these problems.

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"Quality Control Study of the Lender Interest Unit Concerning the Manual Payments Process," GSL Branch, Division of Program Operations, and Advanced Technology, Inc., U.S. Department of Education, 1982-1983.

During 1982, Advanced Technology developed a methodology to measure error for interest and special allowance payments that cannot be processed by the computer system. Utilizing this methodology, the GSL Branch of the Divison of Program Operations found a significant amount of error in the manual process. The results of this study are presented in Figure 3.3-9. In the course of this study it was noted that, although new procedures had been developed to ensure quality in this process, they were not always being followed.

"Evaluation of Quality Control Procedures for GSL Reinsurance Claims and Collections: Final Report," Advanced Technology, Inc., U.S. Department of Education (Forthcoming)

This study, scheduled for completion in September 1983, analyzes problems and recommends related corrective actions in the GSL reinsurance process. Problems and enhancements are broken down into the three principal actors/components of the GSL reinsurance process:

- Division of Program Operations (DPO), OSFA
- Data processing procedures
- Office of ED Finance.

Problems were identified, in part, by a series of interviews with ED staff. Among the problems identified in DPO are:

- Lack of written operating procedures
- Poor recordkeeping
- Small/poorly training staff
- Lack of supporting documentation for account adjustments
- Lack of adequate verification procedures
- Inefficient filing system
- Problem in identifying and collecting overpayments
- Inefficient communication with ED Finance.

FIGURE 3.3-9

SUMMARY OF STUDY OF MANUALLY PROCESSED INTEREST BILLINGS

September, 1982 through November, 1982

	Receipt Control	Completeness	Accuracy	Duplication	Treasury Verification	Timeliness	Overall
Number of Errors	559	493	74	10	24	52	1,212
Number of Cases with Errors	91	63	38	7	24	52	101
Error Rate (# of cases with error divided by total number cases sampled)	86%	60%	36%	6%	22%	49%	96%
Value of Errors	N/A	N/A	+426,496.42 -37,176.52	+12,221,55	+0 -30.80	+1,821.16	+438,717.97 -37,207.32

**Number of Cases Reviewed: 105

Total of 131 lenders were paid during this period,
Total of 26 files were unaccounted for, and
Total reviewed was 105 cases, of those 105 files, only 4 reviewed had no error.

Major problem areas with ED Finance include:

- No accurate aging of accounts by state
- Cannot calculate outstanding balance at any given time
- Cannot always tell if amount on collection check is correct (1189-2 not always filled out properly)
- For collections, no breakdown into principal and interest
- Data not received on machine-readable media
- Communication with DPO sometimes inefficient
- Must assume when voucher is received that it is a valid obligation.

The principal deficiencies in the data processing system are:

- Cannot delete an entry once it is made
- Cannot make a negative or correcting entry in the claims system
- Cannot correct for over- and underpayments
- Cannot indicate repurchased loans on the collections system
- No automated collections system
- No on-line query capaciity
- It repurchase occurs followed by a second default, system considers it to be a duplicate claim
- Check-to-lender report not listed by schedule number
- Sorting problems in data processing
- Reports not run in optimal sequence for users.

A preliminary list of corrective actions to be discussed in the report include:

- Operating procedures, new checklists/logs, and staff training in DPO
- Marginal enhancements to the existing data processing system including:
    - New fields on the State collections record

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  - Record delete capability for the State collections file
  - On-line query capability
  - Utilization of repurchase field on collections record
  - Resequencing of reports
  - New reports
- Redesign of the data processing system
- Procedures to calculate current outstanding balances using Guarantee Agency quarterly reports and DPO data
- Procedures to age collections balances
- Separation of principal and interest on the 1189-2 Form (Guarantee Agency Report on Recoveries on Claims Paid under Federal Reinsurance)
- Obtain Guarantee Agency data on a one-time basis to combine with ED data.

The various corrective actions will be prioritized using a set of evaluative criteria. In particular, the tradeoffs between major structural corrective actions and marginal corrective actions will be analyzed.

3.3.3 EFFECT BY ACTIVITY

This section identifies the subsystems and activities that are affected by the data presented in the previous section. In addition, information from interviews, site visits, and hearings is added where relevant.

The Pell Component

Pre-Application Subsystem

The ability of the government to accurately forecast the need for funding does affect fund control. As reported in 3.2, Fund Forecasting, little data is available on this issue. Fund control is also related to the ability of the government to generate precise instructions on what delivery system participants are required to do. As reported in the sections on availability of information, participants generally feel that this information is currently inadequate. The stringency of Federal determination of school eligibility for participation also affects fund control, however, no data is available on the adequacy of these procedures. Fund control also relates to the ability to control float. As was reported in the previous section, authorizations generally exceed expenditures, almost by definition because of Progress Report instructions. Reductions in initial authorizations have led to significant savings (as measured by short-term Treasury Bill rates) in the 1980-1981 award year, but have placed significant burdens upon some schools and students.

Student Application, Eligibility Determination and Award Calculation Subsystems

Fund control also includes the ability of the system to deliver the correct amount of aid to students. Studies cited in the previous section show that errors by students and schools lead to significant miscalculation of awards. Few errors could be attributed to data processors. For example, net overpayments were approximated at $257 million during the 1980-81 award year. Studies of the impact of validation of applications indicate that validation has only a marginal effect on reducing net overpayments. However, the choice of criteria used to flag applications to be validated were found to be effective in identifying error-prone applicants. Interviewees also noted that it is difficult for schools to be sure that they have the most recent SAR for a student, leading to miscalculated awards until the next Student Validation Roster is received.

Fund Disbursement Subsystem

As was noted earlier, one component of fund control is the ability to control the float, by disbursing funds to institutions immediately prior to when they are disbursed to students, and by insuring that the correct amount of funding is disbursed. From the perspective of the Department, the float for Pell institutional funding has been improved, resulting in significant savings as measured by interest costs, but creating problems for some institutions. Because ADS students are paid directly by the Government, float is not an issue for these payments. Interviewees did note that calculating refunds for students who withdraw is a very difficult and time-consuming procedure.

Account Reconciliation Subsystem

Persons interviewed for this project noted their belief that the Progress Report and Student Validation Rosters are error-prone forms. Account reconciliation has been a major problem for the Pell program. Due to the number of recipients and the frequency of changes in student status, schools find it very difficult to reconcile accounts on a student-by-student basis. The Department is still trying to reconcile accounts from as far back as the 1973-74 award year. However, as reported earlier, there has been significant improvements in this activity since 1979. Over the past year, the Department has made significant progress in resolving outstanding institutional audits, as reported in the previous section. No information is available on the stringency of audits or program reviews, although they are designed to ensure program compliance and adequate accounting for program funds.

The GSL Component

Pre-Application Subsystem

The ability of the Government to accurately forecast the need for funding does effect fund control. As reported in 3.2, "Fund Forecasting," little data are available on this issue. Fund control is also related to the ability of the Government to generate precise instructions on what delivery system participants are required to do. As reported in the sections on availability of information, participants generally feel that this information is currently inadequate. The stringency of Federal and State agencies' determination of school's and lender's eligibility for participation also affects fund control. However, no data are available on the adequacy of these procedures.

Student Application, Eligibility Determination, and Benefit Calculation Subsystems

Although no studies have been done of error rates in GSL application processing, the findings of the Pell studies indicate that significant errors may exist. Errors made by students, schools, lenders, or guarantee agencies may lead to ineligible students receiving loans, or to loans that exceed statutory limits. For more information on this issue, see the effect "Fund Control" for the other GSL participant groups. GSL applications are verified or validated at the discretion of the school; many of the schools visited require validation from tax return data for all aid applicants. Schools, lenders, and state agencies are also required to check applicant data against their own records.

Fund Disbursement Subsystem

The GAO reports and other studies cited in the previous section note significant fund control problems related to Federal payment of interest and special allowances to lenders. For example, these payments are frequently miscalculated, and are not verifiable due to the lack of a central data base. In addition, audit trails are lacking, and generally accepted accounting principles are not followed. The Department is currently working to ameliorate these problems. No Federal fund control problems were cited for loan disbursements, reserve fund advances, or administrative cost allowance payments.

Account Reconciliation Subsystem

Again, GAO reports and other studies cited in the previous section indicate numerous problems related to this subsystem. For example, reinsurance claims are not verifiable due to the lack of a central data base. In addition, the accounting mechanisms for claims, collections, and repurchases are inadequate. The Department is currently studying their systems to determine what actions are needed to resolve these problems.

The Federal government does collect data on individual students who default on student loans. Although lenders and state agencies would like to have access to this data, it is not currently being processed in a usable form. In comparison to the FISL program, state agency default and collections statistics are relatively good. Lenders interviewed all stated that they believed that these rates are reasonable, i.e., they are as low as can be expected given the characteristics of the borrowers.

ED personnel interviewed noted that GA Quarterly Reports are often received late, leading to fund control problems related to calculating administrative cost allowances and the trigger figures for reducing reimbursement rates on claims. At the present time, the GSL Branch of the Division of Policy and Program Development is attempting to circumvent this problem by phoning the GAs for the needed data, and asking for subsequent written verification. State agencies have also complained about the content of these reports.

Federal audits and reviews of GAs and lenders generally lead to the need for corrective actions. No data is available on the stringency of these audits and reviews, although GAO has noted that these activities cannot make up for deficiencies in other fund control-related activities.

The Campus-Based Component[1]

Pre-Application Subsystem

Fund control is related to the ability of the government to generate precise instructions on what delivery system participants are required to do. As reported in the sections on availability of information, participants generally feel that this information is currently inadequate. The stringency of Federal determination of school eligibility for participation also affects fund control. However, no data is available on the adequacy of these procedures.

Student Application, Eligibility Determination and Award Calculation Subsystems

The error rates cited previously for Pell applicants may also apply to the Campus-Based program, because the same application is frequently used for both programs. Most of the schools visited do require applicants to submit copies of their tax returns, so that application data can be verified. Some interviewees have noted that they believe that most Campus-Based applications are reviewed stringently, because schools have a strong interest in ensuring that these funds go only to truly "needy" applicants.

Fund Disbursement Subsystem

The procedure for disbursement of Campus-Based funds from the Federal government to the schools, and from the schools to students, is covered under effect 5.3. Control of these disbursements is primarily the responsibility of the educational institutions. Information related to the timeliness of institutional drawdown of Campus-Based authorizations was not available because of the manner in which requests are pooled.

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[1] Because the Campus-Based programs are essentially institutional grant programs (with "strings attached"), fund control is primarily a result of the procedures utilized by the participating schools. See effects 5.3 and 5.4 for information on this issue.

Account Reconciliation Subsystem

Interviewees noted that the FISAP form, which is used to provide data on expenditures, seems to be error prone. Reconciliation is primarily the responsibility of the schools. Data on reconciliation as well as NDSL defaults are presented in effects 5.3 and 5.4. Over the past year, the Department has made significant progress in resolving outstanding institutional audits, as reported in the previous section. No information is available on the stringency of audits or program reviews, although they are designed to ensure program compliance and adequate accounting for program funds.

3.4 AVAILABILITY OF INFORMATION (FEDERAL GOVERNMENT)

3.4.1 OVERVIEW

Definition

Availability of program information refers to the degree to which the delivery system generates the information needed to begin participation in the program, to administer the program, and to evaluate the program. Information related to participation includes knowledge of the program's existence, of sources of additional information, of types of aid available, and of the relevant application procedures. For program administration, information is needed on the processing procedures to be followed, the desirable types of personnel training, and the information to be disseminated to other participants. Information for program evaluation consists primarily of the collection of relevant statistics.

Summary

During interviews and site visits, and in a few studies, some government employees and many representatives of other participant groups discussed the adequacy of information maintained and/or provided by the Department. Respondents noted the following problems:

- Information received from the Department is not always timely, accurate, complete, or understandable.
- Different Departmental personnel give conflicting answers to the same questions.
- Training activities should be increased.
- The forms used to collect information seem to be error-prone, in part because the instructions are confusing, and in part because they constantly change.
- The data bases maintained by the Department are not always up-to-date, accurate, and accessible.
- The emphasis within the Department seems to be on the quantity, rather than quality, of data.
- Some respondents argue in favor of a per recipient data base for all programs, others question the practicality of this option.

Most participants interviewed are highly dependent on Departmental information dissemination and training activities, and would like to see these activities expanded.

3.4.2 FINDINGS

"Service Delivery Assessment of the National Direct Student Loan Program." Office of Management, U.S. Department of Education, January 1982

This ED report addresses the adequacy of the current delivery system in terms of providing sufficient training and technical assistance to institutions. The report focuses on the NDSL program, but the following observations tend to characterize problems related to other delivery system components, according to comments collected during interviews and site visits.

Virtually all institutional financial aid staffs attend workshops held by professional organizations, servicing organizations (i.e., billing and collection agencies), or ED Regional Offices. In most institutions, an in-house training program is operated on a regular basis as well, and staff who attend external training sessions may then train other staff internally. Still, expertise and experience among school staffs varies and is a major concern to several respondents. Some staffs said they had limited knowledge of the intricacies of the program which they found "confusing," and the servicing organizations surveyed agreed. Not surprisingly, this confusion seemed to be more the case among schools which used a billing agency than those which had to perform billing as part of their job. There was not much concern or high incidence of staff turnover among the schools visited, although it was listed as a reason, especially by billing and collection agencies, for the uneven quality of institutional staff and the need for additional training to be made available to them.

All respondents who commented on the availability of training expressed a desire for more training sessions by ED on a variety of topics, including how to conduct good entrance and exit interviews, how the Privacy Act related to collections, and on sanctions such as credit bureau reporting and cost-effective litigation for defaulted borrowers, and "best practices." The recent changes in the legislation for the program was given as an added reason for more training.

In a number of areas of the country, there were complaints that reliance on ED regional or headquarters offices for information on changes in the program was time-consuming. Some billing agencies and professional associations were said to be much faster channels of communication. In one state, there was a "hotline" manned by a professional association. Some regional offices were given good marks by the schools for answering operational questions, but there were notable gaps when it came to policy clarification, much of which must be referred to headquarters. There was a perception that regional staff, by and large, are compliance-oriented rather than service-oriented. In three regions visited, the schools said they found just two or three individuals in each field office to be helpful, while the rest of the staff were characterized as unresponsive.

On the information issued by ED, many said the "Q and A" handbooks are not timely enough, and need to be indexed. One school paid a student to work on indexing all the "Q and A's," so they would have greater utility. The fact that there has not been a new NDSL manual since 1967 was also mentioned, along with repeated requests for a comprehensive new manual.

"Improving the Systems that Manage and Administer the Delivery of Student Financial Aid: A Special Report for the Secretary of Education," R. Caccia, H. Lester, and S. Corrallo, U.S. Department of Education, September 17, 1980.

This report reviews the deficiencies of the current delivery system, and notes the requirements for redesign that emerge from their analysis. Most of these requirements relate to the need for an improved information system, which includes the following features which are not part of the current system:

- Integrated Data Base - The student aid system must have a data base that contains (or points to) all the data needed to meet the spectrum of user needs. This includes all data required within each program, as well as data common to all programs.
- Flexible DBMS - The system must employ a flexible data base management system that permits easy access to all elements of data in the data base.
- Student Record - The system must have data records that collect, under a student identifier (most likely a social security number), all the data related to that student. For example, such a record could be structured to contain student identification data common to all financial aid programs, and separate sets of data peculiar to each program.
- Institution Record - The system must have data records that collect, under an institution's identifer, all data related to that institution.

- Common Data Definitions - The system must employ standard definitions (form, format, and content) for data elements that are required by more than one financial aid program.

- On-Line Process - The system must provide real-time access to the data base and computer programs via remote terminal devices located at user installations.

- Consistent Strategy - The system must employ consistent rules for the determination of benefits.

- Central Design Control - The system design, development, and implementation must be centrally managed by a strong organizaton to ensure new requirements are properly assessed, configuration control is retained, proper tests are made, and design integration is achieved.

- Modular Design - Computer programs must be designed in a way that permits flexible changes without large resource impacts.

Interviews and Site Visits

Interviews and site visits yielded a significant amount of information on this effect. First, most participants complained that the information they receive from the Federal government is not timely, accurate, complete, and understandable. They also noted that they frequently receive contradictory responses from different ED headquarters and regional personnel. Although the Department issues a number of handbooks and manuals, these sources of information are not adequate from the perspective of many participants, in particular because the program and delivery system requirements are constantly changing, and because there are so many different sources to check which often conflict.

Second, many participants noted that the instructions associated with the forms used to collect information are confusing. This confusion, in addition to constant changes in format and content, lead many people to believe that the data reported is very error-prone.

Finally, many respondents expressed concerns related to the quality and accessibility of data bases maintained by the Federal government. The institutional data in the Pell data base is thought to be of high quality, in part because of institutional reviews by ED personnel. Some questions were raised about the quality of the student data, and one respondent noted that the emphasis has been on the quantity of data collected, rather than the quality. Pell payment data are collected on a per student basis, but are organized by SAR rather than disbursements. Ths makes it difficult to access the data to compare year-to-year disbursements.

As is noted in 3.3, "Fund Control," GSL data bases have been the subject of much criticism. The information system is not up-to-date and accurate, and lacks certain types of data. No data is collected on per student loan disbursements. The Department does collect per recipient data on defaults, deaths, disabilities, and bankruptcies. However, this data are not currently being formulated into an accessible data base even though many GAs and lenders said they would find it very useful.

GAs also complained that the Quarterly Reports and tape dump project require a significant amount of work on their part, but the Department does not seem to need or use all the data. They also noted that there is too much emphasis on the quantity, rather than quality, of data. Departmental personnel noted that the Quarterly Reports from some agencies are often received very late, and that only 36 agencies sent in tapes for this year's tape dump. The Department often telephones agencies to collect needed data that should have been submitted on the Quarterly Report, and is planning to run the tapes it has received this year.

Campus-Based data is collected on a summary, per institution basis. Personnel interviewed noted that this data base is frequently inaccurate and out-of-date. Institutions are not always informed of the reasons why ED changes data they have submitted, making it difficult for them to make any necessary adjustments.

These issues related to existing data bases are important for a variety of reasons:

- They are, or can be, used to validate requests for funds.
- They are used to track and account for funds.
- They are used for program evaluation.

Some respondents noted that it does not make sense to collect per recipient data for the GSL (other than on defaulters and bankruptcy cases) and Campus-Based programs. They noted that the costs would be excessive, and it would be extremely difficult to maintain accurate and up-to-date data. They noted that samples specifically designed for particular studies would be more cost-effective, and would allow for adequate assurance of quality. In fact, the Department has been using samples of the recipient population to detect error-prone portions of the delivery system, and for the purpose of program evaluation. Other respondents advocate a central data base with per recipient information, to be used to verify eligibility, check award amounts, validate payments, and evaluate the impact of the programs.

3.4.3 EFFECT BY ACTIVITY

Because almost all of the findings reported above are related to the Pre-Application Subsystem of the three program components and to reporting requirements throughout the delivery system, no breakdown of this effect by activity is presented.

3.5 INTEGRATION ACROSS PROGRAMS (FEDERAL GOVERNMENT)

3.5.1 OVERVIEW

Definition

Integration across programs refers to the degree to which delivery system activities are identical or integrated across all three program components.

Summary

As is illustrated by the chart in Appendix A, many Pre-Application activities are integrated across all three programs. The Student Application, Eligibility Determination, and Benefit Calculation Subsystems are generally integrated at the institutional level. Most Fund Disbursement Subsystem activities are not integrated. Within the Account Reconciliation Subsystem, only institutional audits and reviews are integrated.

3.5.2 FINDINGS

Presented in Appendix A is a summary comparison of current delivery system activities which indicates the extent to which activities are integrated across the three major program components: Pell, GSL, and Campus-Based. For each program, delivery system activities are listed within the relevant delivery system subsystems, and those activities considered to be at least partially integrated across the three programs are marked with an asterisk (*). Individual footnotes describe specific aspects of program integration for certain activities, as applicable. It should be noted that complete integration is not possible, due to the variation across the features of the programs.

3.5.3 EFFECT BY ACTIVITY

Pre-Application Subsystem

The following activities are at least partially integrated within this subsystem.

- ED Budget Development
- Development and Promulgation of Federal Regulations
- ED Forms Development

- ED Information Dissemination and Training
- ED Contract Development and Support
- ED Systems Planning and Revision
- ED Determination of Institutional Eligibility and Certification
- Institutional Planning and Information Dissemination.

In addition, Establishment of Payment Systems is integrated for the Pell and Campus-Based programs.

Student Application, Eligibility Determination, and Benefit Calculation Subsystems

With the exception of GSL lender and state agency activities, all activities in these three subsystems are usually integrated at the institutional level.

Funds Disbursement Subsystem

ED disbursements to schools are integrated across the Pell and Campus-Based programs. Disbursements of Pell and Campus-Based funds to students are usually integated at the institutional level, as is the determination of refunds and repayments due to/from students who withdraw.

Account Reconciliation Subsysystem

Reconciliation of institutional and ED Finance accounts, institutional audits, and ED program reviews of institutions, and institutional audits are the only integrated activities within this subsystem, and these are limited primarily to Pell and Campus-Based program functions.

3.6 OTHER AID PROGRAMS (FEDERAL GOVERNMENT)

3.6.1 OVERVIEW

Definition

Other aid programs refer to the interactions between the delivery systems for the three program groupings under consideration (the Pell, GSL, and Campus-Based programs), and all other student aid programs.

Summary

At the Federal level, most other student aid programs are operated separately from the programs under consideration, except for integration of some FISL and PLUS activities with the GSL state agency delivery system. The largest other student financial aid program operated by ED is the State Student Incentive Grant (SSIG) program. Aid programs for health profession students are operated by HHS, and other agencies run programs which also benefit postsecondary students.

3.6.2 FINDINGS

This section summarizes the major programs, offered under the auspices of the Office of Student Financial Assistance, which are not covered by this analysis, as well as other Federal programs which affect postsecondary students.

PLUS

The PLUS program was created in the Education Amendments of 1980, to provide auxiliary loans to parents and students. This program will eventually be somewhat similar to the GSL program, with states administering their own programs. During FY81 approximately 11,000 PLUS loans were made, whereas in FY82 approximately 38,000 loans were originated. In the first three months of FY83, an estimated 23,000 loans were originated. Clearly, this program is expanding rapidly. In comparison with other programs, PLUS is relatively small, but will become increasingly important over time.

FISL

The Federal Insured Loan program was the original private sector student loan program and is essentially identical to the state agency program, except that the Federal government plays the role of the state agency. Now that all states, trusts, and territories are represented by guarantee agencies, the FISL program is being phased out. FISL has represented less than five percent of guaranteed loan originations over the past couple of years. However, repayment-related activities will have to be continued for at least the next 10 to 15 years, since that is normally the length of the repayment period, excluding deferments and in-school and grace periods. Data on this program is presented in this assessment where it is relevant and available.

SSIG

State Student Incentive Grants are essentially block grants to states, which are to be used to provide financial aid to postsecondary students. Other than the determination of basic eligibility criteria, Federal involvement in the delivery of this program is minimal. The primary impact upon students is the timeliness of state allocation notices and the effect that has upon the state's notification of recipients. This was not reported to be a problem to date, although the uncertainty of funding levels from year to year makes state planning difficult. This program is sometimes integrated with other aid programs at the state or institutional level. For example, data from the Pell central processor or MDEs may be used by the states to determine SSIG eligibility. Within OSFA, the Branches responsible for the Campus-Based programs generally are also responsible for SSIG.

TRIO

The three TRIO programs, Upward Bound, Talent Search, and Special Services to Disadvantaged Students, are administered by the Office of Institutional Support, rather than OSFA. These programs do not involve the delivery of financial aid to students; rather they are focused on providing enrichment activities for secondary school students, disseminating information and encouraging college enrollment, and providing support services for academically, socially, and financially disadvantaged postsecondary students, respectively. Coordination is typically restricted to exchange of program information, e.g., these programs may include dissemination of information on sources and types of aid.

Other Federal Programs Affecting Students

There are very little data available regarding the interaction of the programs under consideration and other Federal benefit programs which affect postsecondary students and their families. One such study, conducted in 1976 by The Urban Institute for the Rehabilitation Services Administration (then within HEW) noted, "Notification of eligibility for a BEOG grant, and particularly the amount, in many cases did not come until after the start of the academic year, and is known only to the individual and the college. This complicates financial planning for the state Vocational Rehabilitation (VR) Agency." While the converse is not true, i.e., the Pell Grant eligibility is not affected by VR benefits, those benefits do potentially impact student eligibility for Campus-Based and GSL programs. Coordination at the Federal level is difficult to achieve because of the amount of autonomy provided to the state VR agencies. Through the encouragement of Federal VR and OSFA officials, many (perhaps all by now) state VR agencies and state associations of student financial aid administrators have developed voluntary cooperative agreements regarding information exchange and prioritization of otherwise duplicative benefits.

Similarly, coordination has been undertaken by OSFA and the Bureau of Indian Affairs within the Department of Interior to achieve prioritization of benefits, which are now reflected in Title IV regulations. Implementation of the coordination is delegated, however, to the individual institutions and the BIA field offices.

Other benefit programs where coordination is needed, but is presently lacking in adequacy (according to interview and hearing data), are as follows:

- Health Professions and Nursing Student Loans (HHS)
- National Health Service Corps (HHS)
- Health Education Assistance Loans (HHS)
- Exceptional Financial Need Scholarships (HHS)
- Social Security (HHS)

- Public Assistance (welfare, AFDC, etc.) (HHS and states)
- Food Stamps (USDA)
- Veteran's Benefits (VA).

The Federal delivery system interacts with many other non-Federal aid programs as well, including all state and institutional programs and most private programs. However, there is a limited amount of coordination that ED can provide or even encourage, except to provide institutions the continued latitude to deal with these programs at a local level.

3.6.3 EFFECT BY ACTIVITY

Most interaction of other aid programs with the programs under consideration occurs within the Pre-Application Subsystem. These interactions are primarily related to forward planning and information dissemination activities. However, some respondents have noted that there is need for more coordination and cooperation and exchange of information about common applicants/recipients (Eligibility Determination and Benefit Calculation subsystems) as well. No breakdown of this effect by activity is presented.

CHAPTER FOUR
STATE AND GUARANTEE AGENCY EFFECTS

4.1 NET REVENUE (STATES/GUARANTEE AGENCIES)

4.1.1 OVERVIEW

Definition

Net revenue is the difference between gross program-related revenues and the relevant administrative costs. Gross revenues include Federal administrative cost allowance payments, Federal advances for reserve funds, Federal reinsurance claim payments, lender insurance premium payments, retention of up to 30 percent of collections (for defaulted loans on which reinsurance claims have been paid), and receipts from state appropriations and revenue bonds. Administrative costs are the costs of program-related operations including: staff salaries and benefits, office supplies and equipment, rent and maintenance, and contractual costs. While revenues tend to be driven by program features rather than delivery system features, costs tend to be driven by the delivery system. Of the programs under consideration, most state involvement is in GSL. Therefore, this effect includes guarantee agency (GA) net revenue from GSL only.

Summary

For the 48 state agencies in operation in FY80, administrative costs totaled approximately $219 million, and program-related revenues totaled approximately $277 million, yielding net revenues of approximately $58 million. In FY81, with 51 agencies in operation, costs totaled approximately $302 million and revenues totaled approximately $429 million, yielding approximately $126 million in net revenue. These aggregate figures represent a period of significant increases in state guaranteed loan volume, and mask significant variations between agencies. The largest source of revenue is reimbursement for claims paid, the largest cost is for claims-related operations.

4.1.2 FINDINGS

Guarantee Agency Quarterly Reports

Guarantee agencies are required to submit Quarterly Reports to the Department of Education, which are ten page reports of summary financial data. For fiscal years 1980 and 1981, the data on sources and uses of funds is reported in Figure 4.1-1.

This figure illustrates the importance of activities related to the guarantee function. Federal reimbursement for claims paid represents almost half of all revenues, and claims-related expenses represent more than half of all costs. In FY 1980, costs represented 79 percent of revenue, and in FY 1981, costs were 70 percent of revenue. The increase in costs and revenues is largely a reflection of the recent increase in the number of guarantee agencies and expanded loan volume. Three new agencies went into operation in FY81, and many other agencies expanded their role. In FY81, total guarantee agency loan commitments (not including FISL and PLUS) grew to $7,367,000, from $4,336,000 the previous year, almost doubling in a 12-month period. It should be noted that insurance premiums can be considered payments into the reserve fund to cover possible defaults or other claims; as such, they could alternatively be represented as covering the lifetime of the loan, e.g., by using accrual methods of accounting.

The aggregate numbers reported in Figure 4.5-1 mask a significant amount of variation between agencies. A few examples of this variation are presented in Figure 4.1-2.

"List of Active Reports Approved Under the Federal Reports Act", Office of Postsecondary Education, U.S. Department of Education, 1983

This document contains a list of the reports currently being submitted to the Department of Education with an estimate of the hours required to complete them. The estimates are usually made by the branch chief originating the form. The estimates for forms completed by guarantee agencies are presented in Figure 4.1-3. The accuracy of these estimates has been questioned by some state agencies.

FIGURE 4.1-1

AGGREGATE GUARANTEE AGENCY SOURCES AND USES OF FUNDS

Revenues (Sources)	Fiscal Year 1980 Dollars in Millions	Fiscal Year 1980 Percent	Fiscal Year 1981 Dollars in Millions	Fiscal Year 1981 Percent
Insurance Premiums	$ 56.2	20.3	$ 96.8	22.6
State Appropriations	5.4	2.0	17.7	4.1
Advances	5.9	2.1	6.0	1.4
Reinsurance Reimbursement	135.8	49.1	194.7	45.4
Administrative Cost Allowance	22.1	8.0	38.5	9.0
Collections	29.0	10.5	36.8	8.6
Investments	20.7	7.5	37.1	8.7
Other (non-Federal)	1.6	0.6	1.2	0.3
Total Revenues (Sources)	$ 276.6	100.0	$428.8	100.0
Costs (Uses)				
Claims	$ 144.0	65.8	$185.3	61.3
Operating Expenses	43.7	20.0	71.2	23.5
Returns to ED	21.6	9.9	29.5	9.8
Other	9.4	4.3	16.6	5.5
Total Costs (Uses)	$ 218.7	100.0	$302.5	100.0
Net Revenue	$ 57.9	N/A	$126.3	N/A

Source: Division of Policy and Program Development, U.S. Department of Education, March, 1983.

Note: Data were obtained through phone calls, and may be subject to minor revisions once the Quarterly Reports are processed. Totals may not sum due to rounding. This data reflects 48 guarantee agencies in FY80 and 51 guarantee agencies in FY81, including the 50 states and the District of Columbia. It includes revenues and costs related to the PLUS program as well as GSL. However, PLUS represented less than one percent of state agency loan volume in 1981.

FIGURE 4.1-2

GUARANTEE AGENCY SOURCES AND USES OF FUNDS FOR SELECTED AGENCIES
(Dollars in Millions)

	Arizona		California		Georgia		New York		South Carolina	
	FY80	FY81	FY80	FY81	FY80	FY81	FY80	FY81	FY80	FY81
Revenues (Sources)										
Reinsurance Premiums	$ -0-	$ 0.014	$ 3.951	$10.982	$ 1.267	$ 1.939	$ 7.426	$ 9.638	$ 0.146	$ 0.146
State Appropriations	-0-	-0-	-0-	-0-	0.537	0.560	0.635	-0-	-0-	-0-
Advances	-0-	0.050	1.079	-0-	0.175	-0-	-0-	-0-	0.050	-0-
Reinsurance Reimbursement	-0-	-0-	0.011	0.323	2.816	3.129	42.728	71.700	0.001	0.021
Administrative Cost Allowance	-0-	-0-	0.397	1.236	0.320	0.506	4.777	8.487	-0-	0.003
Collections	-0-	-0-	-0-	0.001	0.953	1.126	9.949	12.809	-0-	0.003
Investments	-0-	-0-	0.280	0.909	0.420	0.787	3.895	6.937	0.074	0.078
Other (non-Federal)	-0-	-0-	-0-	-0-	0.025	0.037	-0-	-0-	-0-	-0-
Total Revenues (Sources)	-0-	0.064	5.719	13.452	6.514	8.083	69.412	109.571	0.271	0.251
Costs (Uses)										
Claims	-0-	-0-	0.031	0.928	2.383	2.957	49.768	56.383	0.006	0.026
Operating Expenses	-0-	0.127	1.135	3.466	0.841	1.145	10.830	13.300	0.010	0.024
Returns to ED	-0-	-0-	-0-	-0-	0.572	0.694	8.964	15.892	-0-	0.001
Other	-0-	-0-	-0-	1.413	0.492	0.560	0.293	-0-	0.042	-0-
Total Costs (Uses)	-0-	0.127	1.166	5.807	4.288	5.356	69.855	85.575	0.058	0.052
Net Revenue	-0-	-0.063	4.553	7.645	2.226	2.727	-0.443	23.996	0.213	0.198

*Source: Division of Policy and Program Development, U.S. Department of Education, March 1983

Note: Data was obtained through phone calls, and may be subject to minor revisions once the Quarterly Reports are processed. Totals may not sum due to rounding.

FIGURE 4.1-3

GUARANTEE AGENCY PAPERWORK BURDEN

REPORT	ANNUAL RESPONSES	TIME PER RESPONSE
Guarantee Agency Quarterly Report	220	1 hour
Guarantee Agency Request for Reimbursement For Claims Paid, Request for Reimbursement Under Agreement for Federal Reinsurance, Request for Reimbursement on Death/Disability	1,800	1 hour 45 minutes
Guarantee Agency Report of Recoveries on Claims Paid Under Federal Reinsurance	500	2 hours

Source: List of Active Reports Approved Under the Federal Reports Act as of 3/31/83.

4.1.3 EFFECT BY ACTIVITY

Of the programs under consideration, state agencies are primarily involved in delivery of GSL. The effect of other Title IV programs on state agencies is covered in 4.5 "Other Aid Programs." It should be noted that state guarantee agency (GA) data includes the PLUS program; however, the volume of these loans is negligible.

Pre-Application Subsystem

Costs related to the development and dissemination of forms, policy, procedures, and systems revisions are not broken out for GAs, nor are the costs of training activities reported separately. Revenues from non-Federal sources, e.g., state appropriations and investments, which could be considered part of this subsystem, totaled approximately $56 million for 50 GAs in FY 1981, or 13 percent of total revenue.[1]

Student Application, Eligibility Determination, and Benefit Calculation Subsystem

Costs related to guarantee approval are not reported separately. Revenues related to these subsystems include the receipt of insurance premiums from lenders, totaling approximately $97 million in FY81 for all agencies or 23 percent of gross revenues.[1]

Fund Disbursement Subsystem

Costs related to disbursement activities and associated data collection are not broken out separately for GAs. Revenues covered by this subsystem included approximately $18 million in FY81 in Federal advances for 19 agencies (1 percent of revenues).[1] Federal administrative cost allowances totaled $38 million in the same year for 48 agencies, or 9 percent of total revenues.[1]

Account Reconciliation Subsystem

This subsystem represents the largest proportion of GA costs and revenues. Costs related to claims totaled $185 million in FY81 for 48 agencies, or 61 percent of the gross costs.[1] Returns to ED, which primarily includes at least 70 percent of collections on loans (for which claims have been paid), which is returned to ED, totaled $29 million for 35 agencies in FY81, or 10 percent of total costs.[1] Revenues related to this subsystem totaled $195 million in claims reimbursements under reinsurance agreements for 46 agencies, or 45 percent of gross revenue.[1] Revenues from collections totaled approximately $37 million in FY81 for 42 agencies, or 9 percent of gross revenue.[1]

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[1] Percentage calculations are based upon all 51 state agencies, although not all agencies may have reported that category of revenue or cost.

Operational costs related to these activities are not broken out; however, the Department has estimated that claim forms require one hour and 45 minutes to complete, and collection forms take two hours. In addition, the Quarterly Reports require one hour to complete, according to ED estimates. Site visit data suggest that the Quarterly Report is more time consuming than that estimate.

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[1] Percentage calculations are based upon all 51 state agencies, although not all agencies may have reported that category of revenue or cost.

4.2 CERTAINTY OF FUNDS (STATES/GUARANTEE AGENCIES)

4.2.1 OVERVIEW

Definition

Certainty of funds is the probability that a state agency will actually receive the amount of funding expected and/or the probability that funding will be received at the time when it is expected. Expectations involve subjective judgments that will change as new information is received or assimilated, so the degree of certainty that a state agency has will change over time. This effect is important because it may influence decisions related to program participation, as well as fund forecasting and cash flow.

Summary

Very little information is available on certainty of funds for state guarantee agencies (GAs). During the site visits, few comments were collected that relate to this effect. The reason for this lack of comment may be that this effect is not problematical for the GAs visited. The GAs may be relatively certain of the amount and timing of funds to be received, or that they may have become so used to a certain amount of uncertainty when dealing with the Federal government that it is perceived as a given. Most uncertainties noted by the agencies visited related to changes in the programs or in related procedures by the Federal government.

4.2.2 FINDINGS

Because of the lack of data on this effect, findings are not reported separately. See the summary above and the "Effect by Activity" below for information related to this effect.

4.2.3 EFFECT BY ACTIVITY

Of the programs under consideration, state agencies are primarily involved in the delivery of the GSL program. The impact of other programs on state agencies is considered in 4.5 "Other Aid Programs."

GSL Component

Pre-Application Subsystem

Most of the problems related to certainty of funds for state guarantee agencies are related to this subsystem. The agencies visited noted that it is difficult to anticipate changes in the program and related procedures. The information they receive on these changes is frequently not timely, i.e., it is received too close to the time when the alterations must be completed. Forward planning is, therefore, difficult and expensive, due to the last minute systems changes that must be made. In addition, the information received by the GAs is not always accurate, complete, and understandable. The frequency of these changes make fund forecasting and financial planning difficult.

Student Application, Eligibility Determination and Benefit Calculation Subsystems

The GAs visited did not note any problems related to predicting the volume of loans they will be asked to guarantee.

Fund Disbursement Subsystem

The GAs visited did not note any problems related to predicting receipts for reserve fund advances. One agency noted that the timing of the payment of the administrative cost allowance was so unpredictable that they ignore it for purposes of projecting cash flow. They know it will eventually arrive, but have little idea of when.

Account Reconciliation Subsystem

The GAs visited did not note any problems related to predicting the number of borrowers who default, die, become disabled, or have their loans discharged in bankruptcy. Nor did they note problems related to predicting reinsurance claims payments from the Federal government or collections on delinquent or defaulted loans. However, it was mentioned that some judges incorrectly discharge student loans in bankruptcy proceedings, and that it is difficult to get these judgments reversed. Interviews with Department of Education personnel indicated that GA claims are generally reviewed only for mathematical accuracy and completeness, so it is likely that GAs are generally reimbursed for the amount that they expect. The agencies interviewed were also able to predict how long it normally takes for claims to be reimbursed.

4.3 FUND CONTROL (STATES/GUARANTEE AGENCIES)

4.3.1 OVERVIEW

Definition

Fund control is actually a composite of several related indicators or proxy measures. One component of fund control is miscalculation/error. It refers to mistakes made by the state agencies themselves, or by other participants who are transferring information or funds to the state agencies. This effect includes errors which influence the determination of student eligibility and/or the amount of disbursements and receipts, as well as the ability to capture and correct these errors. These mistakes may be in the form of data items which are inaccurate or of mathematical or other miscalculations, and may have a positive or negative effect on the state agency. This effect also includes the ability to control default rates and collect loan repayments. In addition, fund control refers to the state agencies' ability to track and account for their funds (see also 4.2 "Certainty of Funds").

Summary

Although the state agencies visited noted few problems related to fund control, evidence from other sources indicates that there may be significant problems related to this effect. Errors by students and schools in the application process and the lack of a national data base lead to deficiencies in ensuring that loan guarantees are approved only for eligible students and for the correct amount of loans. Evidence from lenders indicates that they do have some problems related to fund control, which also affect the GA who monitors them and guarantees their loans. Many of these problems relate to the adequacy of GA information collection systems. While default and collections rates are better in the state agency program than in FISL, there is a significant amount of variation in these rates across states.

4.3.2. FINDINGS

"Quality in the Basic Grant Delivery System, Stage 1", Advanced Technology, Inc. and Westat, Inc., U.S. Department of Education, 1982

As noted elsewhere, this study was based on a multi-faceted field survey of over 4,000 students. The purpose was to assess the extent of error in the Pell Grant program. Since many of the Pell general eligibility criteria apply to all Title IV programs, the results of the QC study provide a basis for assessing error in the GSL program. Any transference of error findings from the QC study must be tempered by the fact that the GSL population differs in many respects from the Pell Grant recipient universe, and that GSL applications are reviewed by lenders and guarantee agencies as well as schools.

Of particular interest in utilizing the QC results to assess GSL fund control issues is: 1) the extent to which payments were made to ineligible students; 2) the problems surrounding the correct reporting of enrollment status; and, 3) the extent to which income reporting was error prone. The QC study provided the following information concerning these issues:

- About 1 in 10 Pell Grant recipients were found to be categorically ineligible.
- About 2 in 10 Pell Grant recipients had errors in the reporting of enrollment status.
- About 4 in 10 Pell Grant recipients had misreported income, expense, family composition, asset and debt information so as to affect the Pell Grant award. The misreporting was higher for higher income family groups.

To the extent that these findings are applicable to the GSL program, they indicate that ineligible students may be receiving guaranteed loans, and that loan limits may be determined inaccurately due to misreporting of data used in the need analysis for borrowers whose adjusted gross income exceeds $30,000. For these students, fund control problems may exist due to the approval of loan guarantees for ineligible students, or to the incorrect calculation of loan amounts.

Guarantee Agency Quarterly Reports

Fund control in the GSL program also refers to the ability to keep default rates within reasonable limits and to collect on delinquent payments or defaulted loans. Cumulative figures on these rates are reported in Figures 4.3-1 and 4.3-2.

These numbers illustrate that fund control related to claims and collections is better in the state agency program than in FISL. Cumulative default and collections rates within the state agency program have also improved over the past three fiscal years. It should be noted that these aggregate numbers mask significant differences between individual agencies. For example, as of the end of fiscal year 1982, the net

FIGURE 4.3-1
CUMULATIVE DEFAULT STATISTICS
FISL AND STATE AGENCY PROGRAMS
FISCAL YEARS 1977 TO 1982

(Dollars in Millions)

	As of FY-77	As of FY-78	As of FY-79	As of FY-80	As of FY-81	As of FY-82
Federal Insurance (FISL):						
Matured Loans	$ 3,409	$ 3,928	$ 4,408	$ 4,886	$ 5,310	$ 5,857
Cumulative Default Claims	437	536	631	738	824	896
Lenders' Default Claims Percentage[1]	12.8%	13.7%	14.3%	15.1%	15.5%	15.3%
Net Default Percentage[2]	-	-	8.2%	8.2%	9.1%	8.8%
Federal Reinsurance: State Guaranteed Loans:[3]						
Matured Loans	$ 4,341	$ 5,186	$ 6,264	$ 6,602	$ 8,458	$11,448
Cumulative Default Claims	361	468	595	702	870	1,088
Lenders' Default Claims Percentage	8.3%	9.0%	9.5%	10.6%	10.3%	9.5%
Net Default Percentage	-	-	-	4.2%	3.7%	3.2%

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[1] Lenders' default claim percentages are computed by obtaining the ratio of comulative defaulted claims paid to cumulative matured loans.

[2] The net default percentage represents the default rate after adjustments are made for collection efforts. This percentage is not available for years prior to 1979, and is available for the first time for the total FSL program in 1980.

[3] Taken from Guarantee Agencies' Quarterly Reports.

Source: Division of Policy and Program Development, U.S. Department of Education.

FIGURE 4.3-2

CUMULATIVE CLAIMS AND COLLECTIONS STATISTICS FISCAL YEAR 1982

	FISL	State Agency Program (58 Agencies) [3]
MATURED PAPER (in millions)	$5,857	$11,448
DEFAULTED CLAIMS PAID (in millions)	$ 896	$ 1,088
STILL IN DEFAULT (in millions)	$ 517	$ 370
WRITTEN OFF (in millions)	$ 15	$ 24
COLLECTED (in millions)	$ 215	$ 223
DEFAULTED CLAIMS RATE 1/	15.30%	9.51%
NET DEFAULT RATE 2/	8.83%	3.23%
LOSS RATE	0.26%	0.21%
RECOVERY RATE	23.99%	20.52%

1/ Lenders' default claim percentages are computed by obtaining the ratio of cumulative defaulted claims paid to cumulative matured loans.

2/ The net default percentage represents the default rate after adjustments are made for collection efforts. This percentage is not available for years prior to 1979, and is available for the first time for the total GSL program in 1980.

3/ Taken from Guarantee Agencies' Quarterly Reports.

Source: Division of Policy and Program Development, U.S. Department of Education.

default rate ranged from zero percent for four agencies that have very little or no matured paper, to 18.2 percent for Alabama, although the latter agency only has $42,150 in matured paper.

Site Visits

During the public hearings, representatives of state agencies argued that the GSL program is well run, and could be used as a model for redesign of the delivery system for other programs. However, during the site visits, it became evident that some agencies have had problems related to fund control. As is noted in Chapter 6, lenders do express some concerns related to fund control. Because GAs monitor lenders, and process guarantee approvals as well as claims and collections, any errors made by the lenders will also affect the state agencies.

Some of the agencies visited have had problems monitoring their funds. For example, the Illinois State Scholarship Commission is in the process of automating guarantee approvals and claims. Prior to automation, they have had problems reconciling claims paid, reinsurance payments received, and post-claims recoveries made. They hope that their new system will make reconciliation easier, faster and more accurate. In contrast, the Vermont Student Assistance Corporation reported no problems related to their internal accounting procedures, which are primarily computerized. More information collected during the site visits is reported in the following section.

4.3.3. EFFECT BY ACTIVITY

Of the programs under consideration, state agencies are primarily involved in GSL. The impact of other programs on state agencies is reported under effect 4.5, "Other Aid Programs."

The GSL Component
Pre-Application Subsystem

As noted under effect 4.2, "Certainty of Funds," the frequency of changes in program policy and the related procedures can create problems related to fund forecasting, in particular, because the information received regarding these changes is not always timely, accurate, consistent, complete, and understandable. If lenders are not carefully scrutinized during the eligibility determination process and do not receive adequate information on the procedures that are required, fund control problems may result because of GA dependence on data from lenders. However, no data on this aspect of fund control was received.

Student Application, Eligibility Determination, and Benefit Calculation Subsystems

As noted earlier, a study of Pell applicants found a significant amount of error on the part of students and schools. To the extent that GSL applicants and their schools have an equivalent propensity for error, ineligible students may be receiving loans and some students may be receiving erroneous loan amounts. These errors limit the ability of the GA to ensure that their funds are being used to guarantee loans for eligible students.

Another issue related to fund control is the ability to track previous defaults. The program requires only that borrowers have not previously defaulted on student loans at the same school that they currently attend. However, some state agencies and lenders prefer not to approve loans to students who have any previous defaults, due to their desire to control default rates, yet they are highly dependent on student-reported data. Schools, lenders, and GAs can only check this data against their own records, and are not able to capture defaults in other states if they are not reported by the student. For the same reasons, determining the amount of previous loans for the purpose of determining the amount of the current loan can also be a problem. These issues can threaten the integrity of the guarantee approval process, since, if uncorrected errors are not captured, state agencies may guarantee ineligible loans.

Receipt of insurance fees was not mentioned as a source of fund control problems.

Fund Disbursement Subsystem

Lender disbursements, payment of advances, and administrative cost allowances to GAs were not mentioned as troublesome from the perspective of accounting for funds. However, the Student Loan Marketing Association (SLMA), which buys loans which have been guaranteed by almost all 58 GAs, noted that some state agencies are not accurately recording these sales. The state agency will carry the

the loans under the account of the incorrect noteowner, sending relevant data to the original lender rather than to SLMA.

Account Reconciliation Subsystem

Loan sales for consolidation purposes probably lead to the same reporting problems noted earlier. The problems that lenders have related to tracking student status (discussed in Chapter 6) also affect the GAs. The GAs are responsible for monitoring the lenders, and generate the Student Confirmation Reports that the lenders use to track student status. Inaccuracies in this process can lead to problems related to loan repayment and approval of default claims.

Once a loan payment is delinquent for 60 or 90 days, the lender generally contacts the GA for pre-claims assistance. To control their default rates, most GAs mail letters to the borrower and use the phone extensively to attempt to contact the borrower and to encourage arrangement for payment to the lender. GAs also use skip-tracing services to locate borrowers, and some noted that the ED skip-tracing service is inferior to the other services that are used. Once a loan enters default and a reinsurance claim is paid by ED, the GA may continue to attempt to collect on the loan. GAs visited did not note any problems related to claims and collections procedures, and generally believed that their procedures were effective. As noted previously, claims and collections rates in the state agency program are better than in the FISL program, although there is a significant amount of variation across agencies.

While GAs did not note problems related to lender or GA reporting, Harvard University (which is a GSL lender) noted that, until recently, they had not been providing the Massachusetts state agency with updates on the status of their loan portfolio. Other lenders also noted some concerns with the frequency and content of their reports to the GAs, and with the accuracy of GA reports to the lenders. No problems related to audits and reviews were noted by GAs; however, the ED Division of Certification and Program Review noted that in their reviews of FISL lenders and state guarantee agencies, their findings almost always require corrective actions.

4.4 AVAILABILITY OF INFORMATION (STATES/GUARANTEE AGENCIES)

4.4.1 OVERVIEW

Definition

Availability of information refers to the ability of the delivery system to generate the information needed by various participants. This effect includes information on program features as well as on delivery system procedures. It also includes information that is needed as an input to the delivery system, such as data on student enrollment status.

Summary

The largest deficiency related to availability of information noted by the state agencies visited was the lack of timely, accurate, complete, consistent, and understandable information on policies and procedures from the Federal government. GAs visited also commented that different Federal employees in the headquarters and regional offices gave conflicting answers to the same question. Some problems related to lender reporting to the state agencies were also noted by lenders. State agencies expressed interest in a national data base on student loan defaults, and on an integrated Student Confirmation Report. State agencies are currently working on the latter problem under the auspices of the National Council of Higher Education Loan Programs (NCHELP).

4.4.2 FINDINGS

This effect is difficult to assess objectively, because it is highly dependent on participants' perception of the adequacy of the information that is available, and on their ability to understand the information that they receive. No large scale study has been done on the availability of information from the perspective of state agencies. However, comments were solicited during the site visits about the aspects of information availability that are troublesome from the point of view of these agencies. The previous section summarizes the data that were collected, and the following section presents this data in greater detail by activity.

4.4.3 EFFECT BY ACTIVITY

State agencies are primarily involved in the delivery of the GSL program. The effect of other programs on state agencies is covered under effect 4.5, "Other Aid Programs."

GSL Component

Pre-Application Subsystem

This subsystem is the most important determinant of the availability of information because it encompasses dissemination activities. State agencies interviewed noted problems related to the receipt of information from the Department of Education. They often receive contradictory responses to the same question from different headquarters and regional personnel. In addition, the information received is not always timely, accurate, and complete. They are frequently not forewarned of program and procedural changes that will require changes in their systems, requiring costly last minute adjustments. The instructions they do receive regarding these changes is not always understandable, requiring them to guess at the related systems requirements. The Higher Education Assistance Foundation (HEAF), which operates as the guarantor in six states and the District of Columbia, noted the draft registration issue as a good example of these problems. They decided to go ahead and revise their system to accommodate verification of draft registration prior to final resolution of the related court cases. They felt that they had to incur the expense of this revision because their system could not accommodate last minute changes. The fact that different regional offices give contradictory answers to the same question is also a particularly large problem for HEAF since they operate in several regions.

Some GAs are also actively involved in advertising their programs to students and schools, or in disseminating information to their lenders. For example, the Vermont Student Assistance Corporation (VSAC) has extensive outreach programs. The lack of timely and complete information from the Federal government creates difficulties related to the effectiveness of these efforts. VSAC also noted that the information they receive is frequently difficult to interpret, making it hard for them to instruct students, schools, and lenders about the impact of Federal decisions.

Many GAs are actively involved in the policy development process, in part through their national organization, NCHELP. Thus, the availability of information on the development of statutes and regulations is also important to state agencies. There are currently 58 state guarantee agencies serving all U.S. states, trusts, and territories. Almost all of these agencies have signed all six agreements related to program participation, so information regarding eligibility for participation is no longer important. However, as noted above, there is a great need for current information on program requirements. None of the GAs visited commented on the need for information related to their determination of school and lender eligibility.

Student Application, Eligibility Determination, and Benefit Calculation Subsystem

State agencies did not note many problems related to these subsystems. Incomplete or incorrect applications for guarantee approval are generally returned to the lender. HEAF estimated that about 10 percent of the applications it receives are initially rejected; however, 90 to 95 percent of these applications are then corrected and approved. Some of the agencies visited did note that they are concerned about the lack of a national data base on student loan defaults since they would prefer not to guarantee loans for students who have defaulted previously.

Fund Disbursement Subsystem

Guarantee agencies did not note many information problems related to this subsystem, although as noted under 4.3, "Fund Control," it seems that some GAs are not receiving adequate information on loan status. Some agencies generate promissory notes for their lenders when they issue guarantee approval as a service and to aid in tracking disbursements. No comments were collected regarding information related to interest and special allowance payments, although some GAs do bill the Federal government for these payments as a service to their lenders. Finally, the agencies visited did not comment on information needs related to Federal payment of reserve fund advances or administrative cost allowances, although the timeliness of the latter payments can be a problem.

Account Reconciliation Subsystem

State agencies visited were concerned about the proliferation of Student Confirmation Reports that schools receive from lenders and state agencies. Under the auspices of NCHELP, the agencies are working to resolve this problem. As was noted under 4.3, "Fund Control," state agencies seem to feel that they receive adequate information related to claims and collections, except as noted below.

One state agency visited expressed concern about the adequacy of instructions on the ED Quarterly Report (characterized as "55 pages of garbage"), which apparently has a number of uncorrected misprints as well as a lack of clarity and preciseness. They also indicated that in its present state, the Quarterly Report is almost impossible to automate.

The same agency reportedly called ED for assistance in completing a Request for Reinsurance form and was referred to another agency "who always submits correct forms" when the ED staff member could not answer the questions. The agency reported that because of the lack of any single source of help with report and forms completion, they have adopted the attitude of completing forms as best they can, submitting them to ED, and seeing whether or not they get sent back for correction.

All of the state agencies complained about the lack of information feedback they receive from the volumes of data they submit to ED. One agency indicated they were seriously considering withholding submission of the tape dump until they see some evidence that the data is being used. Another agency questioned whether or not the reports were asking the right questions. For example, the Quarterly Report does not collect the number of loans, only the number of borrowers. There was some feeling that state agency reporting could be streamlined and that annual reporting of many elements should be sufficient for ED's purposes, at least from the use apparently being made of those data.

No other information needs related to reporting, audits and program reviews were noted.

4.5 OTHER AID PROGRAMS (STATES/GUARANTEE AGENCIES)

4.5.1 OVERVIEW

Definition

Other aid programs refer to the interactions between the delivery systems for the Pell, GSL, and Campus-Based programs, and all other student aid programs.

Summary

In some states, one agency acts as a guarantor for the purposes of GSL, and another agency separately administers other Federal and state aid programs. However, most of the agencies visited had responsibility for all student aid programs. The most important programs (other than GSL) administered by these agencies included:

- The Federal State Student Incentive Grant (SSIG) program.
- State-funded grant or scholarship programs.

The above programs are affected by the delivery system for the programs under consideration in cases where state aid is distributed by utilizing data from the Pell or Campus-Based programs, or when the state agency disseminates information on all programs to its residents.

In addition, almost all states are beginning to be involved in the Federal PLUS (auxiliary loans to parents and students) program. During FY 1981, approximately 11,000 PLUS loans were made, whereas in FY 1982, approximately 38,000 loans were originated. In contrast, in only the first three months of FY 1983, an estimated 23,000 loans were originated. Clearly, this program is expanding rapidly; PLUS is now relatively small but will become increasingly important over time. At least one state agency, Vermont Student Assistance Corporation, also operates a statewide Talent Search project which disseminates program information.

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4.5.2 FINDINGS

State Grant Programs

State grant programs are integrated into the Federal student aid delivery system in a variety of ways. A summary of how the state agencies visited operated their delivery systems follows:

- The Illinois State Scholarship Commission has integrated its state grant delivery system into the Pell component of the Federal student aid delivery system. Tapes from the Pell grant processor are used for the state grant eligibility determination. Students simply indicate that they want to apply for the state program.
- The Vermont Student Assistance Corporation also uses Pell data in some of their state grant programs. Vermont applicants receive one consolidated application packet for all sources of aid.
- The Alabama Higher Education Commission runs a state Student Assistance Program in cooperation with the institutions in the state. In the absence of a state appropriation, the institutions provide the SSIG matching funds and the program is run like the Campus-Based programs--it is administered entirely by the institutions, except for formal approval of final awards by the agency. The state also has a Student Grant Program restricted to Alabama residents attending independent Alabama institutions. It has little relationship to the Federal delivery system except as a student resource, reducing need for Federal programs.
- The California Student Aid Commission runs its three grant programs (Cal-Grant-A, Cal-Grant-B, and EOP) separately from the Pell process. The state has a Multiple Data Entry service run by CSS, which processes the Student Aid Application of California (SAAC). The SAAC represents an integrated application subsystem for the state grant program and for most institutions in California.

Talent Search

Vermont Student Assistant Corporation runs a state-level Talent Search program. This program includes outreach activities to students and their parents throughout the state, to provide information on all types of aid available, including Pell, GSL and Campus-Based aid as well as state, private, and other Federal sources of aid.

PLUS

Although PLUS is rapidly expanding in importance, few loans are currently made under its auspices. Fifteen states have contracted with the United Student Aid Fund or the Higher Education Assistance Foundation to administer this program. These organizations currently also act as guarantors for the state agency component of GSL. Except for Florida and Puerto Rico, all U.S. states, trusts, and territories are beginning to operate PLUS programs, and many are planning to expand these programs.

Statewide Planning

Some states, either through the student assistance agency or a separate planning/coordination agency, have developed elaborate planning models for forecasting state-wide needs for student assistance. These models use actual and/or estimated available funding from all Federal programs, either in the aggregate or on an institution-by institution basis, as a means of predicting the need for supplemental state or state-via-institution funding for students. In some states, this data is used in assessing the potential impact of aid upon public institution pricing strategies as well. The amount of Federal funding expected to be available at given public institutions also affects the amount of state monies made available through state appropriations for student aid in some states. In all states, presumably, the Federal funding decisions affect the level of state support for student assistance. The extent to which the delivery system provides adequate information for these purposes clearly affects these activities, although precise data on this issue is not available.

4.5.3 EFFECT BY ACTIVITY

Most of the interaction with other aid programs at the state level occurs in the Pre-application Subsystem, more specifically in the planning and information dissemination activities. In some states, such as Illinois, there is direct interaction between the Pell Grant application processing and the state grant program, but that kind of direct linkage is the exception rather than the rule. The application packet is also integrated across programs in some states. A point of frequent interaction with other aid programs is the use of SSIG funds to supplement state grant programs.

CHAPTER FIVE

POSTSECONDARY INSTITUTION EFFECTS

5.1 ADMINISTRATIVE COSTS (INSTITUTIONS)

5.1.1 OVERVIEW

Definition

Administrative costs to institutions are the actual expenditures on delivery system activities, including the proportion of staff salaries and benefits, office supplies and equipment, systems maintenance costs, and office rent and maintenance, attributable to operation of aid programs. Aid disbursed to students is not included in this effect. In cases where the institution also acts as lender, the costs of loan activities are covered separately under the "Rate of Return" effect. Processors and other service organizations under contract to institutions are included as a component of the institutions for the purpose of describing administrative costs.

Summary

Administrative costs to institutions vary greatly according to the aid program and the type and size of the school. No recent national study is available on these costs. The National Commission Study (1982), based on a sample of only nine schools, estimated the average per recipient total administrative cost associated with the individual Title IV aid programs as follows:

- Pell - $ 56
- GSL - $ 40
- NDSL - $ 160
- CW-S - $ 66
- SEOG - $ 58.

According to this study, GSL, requiring the least institutional involvement, is the least expensive Title IV aid program to administer. Pell, SEOG, and CW-S have relatively comparable administrative costs, although CW-S is slightly higher because of the need to locate jobs. NDSL is the most costly for institutions to administer, because of the long repayment period.

In terms of administrative costs related to specific institutional activities, outreach, accounting, and collections are classified by this study as the most expensive; need analysis/eligibility determination, packaging and awarding, personnel administration, and planning activities all require moderate effort and costs; and reporting, program review, and audit activities require the least administrative costs.

The results of the above study have been critized due to the small size of the sample and lack of consideration of some cost categories, and hence should be interpreted with caution. Information from other data sources is presented in the following two sections, along with a discussion of the limitations of the data.

5.1.2 FINDINGS

Presented below are summary statistics describing the costs borne by institutions in administering the three major Federal student aid program components: Pell Grants, GSL and Campus-Based programs. The administrative cost data presented here are compiled primarily from secondary data sources identified by and available to the study team. The administrative cost data discussed in the sections below represent a very limited assessment of the administrative costs. The limitations of the data can be summarized as follows:

(1) Administrative cost data extracted from the institutional studies cited were collected during different time periods, comprising substantially different institutional samples and data collection methodologies.

(2) The National Commission study prepared by Touche Ross & Co. contains data collected during FY82, using a sample of only nine institutions. While the data presented are highly detailed and were compiled using accepted accounting techniques, it is unlikely that the small sample size employed would yield statistically reliable estimates of average costs among all types of institutions.

(3) Data extracted from the SISFAP reports pertain to administrative costs for the BEOG (Pell) and Campus-Based student aid programs. Costs associated with administering GSL were not included on the institutional questionnaire used for this study. Also, since the SISFAP cost estimates date from the 1978-1979 school year, the appropriateness of their use in assessing current institutional costs is questionable.

(4) Finally, while the cost data summarized here may be useful as approximations of broad cost measures for comparative purposes (e.g., by program and by general activity category) they cannot yield precise estimations of actual costs attributable to discreet student aid delivery subsystems and their related activities. The delivery of student aid on campus involves myriad administrative procedures, each carrying its own individual price tag. Complicating this problem further is the dynamic nature of the regulations and guidelines that govern student aid delivery on campus, institutional characteristics and management philosophies, the automation of administrative functions, and general economic conditions.

The figures discussed below represent general estimates only, and the information cited from various sources may not be comparable due to differences in the time periods covered, data collection methodologies employed, and the ways in which the data are aggregated. Program requirements have also changed in recent years, in ways that have a significant impact on certain cost categories. Similarly, specific cost/activity categories used in the different sources cited are not identical. Qualitative data specific to the institutions visited as part of this project are also presented in the "Effects by Activity" section. Nonetheless, the data are useful as a first approximation to the relative administrative costs associated with different program components and their associated delivery system steps and activities. In all cases, the size, type, policies, degree of automation, etc., of individual schools affects these costs; there is a significant amount of variation between schools.

"Study of the Cost to Deliver Student Financial Aid on Campus," Touche, Ross & Co., National Commission on Student Financial Assistance, 1982.

This study identifies and analyzes the administrative costs of the student financial aid delivery system for postsecondary institutions. Data presented in this section are taken from the draft final report submitted to the National Commission, and therefore may be subject to later revision. The study was conducted in two phases: (1) a literature search of existing resources, and preliminary interviews with student financial aid experts, and (2) on-site collection of empirical cost data for FY 1982 at nine institutions purposefully sampled for general representativeness of various institution types. However, the small size of this sample limits the ability to generalize the results to all participating schools. The institutions that participated in the study's second phase were selected from the four major categories of postsecondary schools, including:

- Three public institutions (universities)
- Two private institutions (universities)

- Two community colleges
- Two proprietary institutions.

In addition to generating several detailed administrative cost estimates by program component and by activity type, the study also yielded a series of observations relating to the impact of institutional characteristics on various administrative cost/activity measures. These characteristics included: the distribution of administrative costs across functions, staff resources needed for various activities, and the proportions of total institutional administrative costs reimbursed directly (through the administrative cost allowance) and indirectly (through the College Work-Study program) by Federal subsidy. These topics are discussed later in this section.

Presented in Figure 5.1-1 is a summary of the average administrative costs per recipient and per $100.00 of aid awarded among the nine institutions included in the National Commission's study. It should be noted that many of the aid administrators interviewed for this project believe that these estimates may be understatements of actual costs.

FIGURE 5.1-1

AVERAGE TOTAL ADMINISTRATIVE COSTS PER RECIPIENT STUDENT AND PER $100.00 OF AID AWARDED, BY PROGRAM COMPONENT (FY 1982)

	Program Component				
			Campus-Based		
Cost Basis	Pell Grant	GSL	NDSL	CWS	SEOG
Average Total Cost Per Student (Recipient)	$ 56.00	$40.00	$160.00	$66.00	$58.00
Average Total Cost Per $100.00 of Aid Awarded	$ 6.40	$ 1.50	$18.06	$ 5.98	$ 9.53

Source: Study of the Costs to Deliver Student Financial Aid

As the data in Figure 5.1-1 indicate, the Guaranteed Student Loan (GSL) program was the least costly to administer among the nine institutions surveyed. On average, GSL had both the lowest cost per recipient and the lowest cost per $100 of aid awarded. This is not surprising, considering that many GSL activities are the responsibility of the lender. Among the nine schools, the cost per recipient ranged from a high of $66.00 (at a four-year private university) to a low of $15.00 (at a four-year public institution). The administrative cost for GSL per $100.00 of aid awarded ranged from $0.68 (four-year public) to $3.02 (proprietary).

The Pell Grant program was the second least expensive program to administer on a per student basis ($56.00), and third on a per $100 of aid awarded ($6.40). The per student cost ranged dramatically, however. One four-year public institution reported a per student cost of only $21.00, while one four-year private school reported its cost to be $97.00. Costs per $100.00 of aid awarded ranged from $2.45 (four-year public) to $14.56 (two-year community college). Some expenses related to this program are borne by the Federal government, due to the role of the central processor.

The Supplemental Educational Opportunity Grant (SEOG) program was found to have the third highest average cost per student ($58.00) and second highest average cost per $100.00 of aid awarded ($9.53). Per student costs ranged from $20.00 to $95.00, and the cost per $100.00 of aid awarded ranged from $3.63 to $44.76.

College Work-Study (CW-S) was the second most expensive program to administer on campus, in terms of cost per recipient ($66.00), but one of the least expensive per $100.00 of aid awarded ($5.98). This differential was attributed in the National Commission study to the labor intensive nature of CW-S administration, insofar as greater time is spent in identifying employment slots, matching job requirements with student skills, disbursing monthly checks, etc. Costs among the nine schools surveyed ranged from $41.00 to $279.00 per student, and from $3.67 to $20.97 per $100.00 dollars of aid awarded.

The National Direct Student Loan (NDSL) Program was by far the most expensive to administer at the institutional level. The cost per student for NDSL attributed to the schools was four times higher than for GSL ($160.00) and nearly three times the cost cited for the remaining programs. Its cost per $100.00 of aid awarded was also much greater than any of the other programs, at $18.06. In analyzing costs incurred by institutions for the administration of NDSL, the National Commission study distinguished current costs from the costs of collection activities. This distinction showed that current administrative costs (those attributable to processing applications, disbursing funds, etc.) were in line with costs cited for the other programs, at $59.00 per student. The additional costs for NDSL were attributed to the administrative effort expended on collection activities, but cost data were not presented separately for such activities. The highest total per student cost cited for NDSL was the $284.00 reported for a two-year community college. The lowest per student cost, $117.00, occurred at a four-year public institution.

Except for the NDSL program, the administrative cost figures for Federal financial aid programs compared reasonably well with the combined cost figures for all other types of aid programs administered on campus (e.g., state and institutional assistance, civic scholarships, etc.). Combined averages for the non-Federal aid programs ranged from $20.00 to $102.00 per student among the nine schools surveyed, and from $4.00 to $29.00 per $100.00 of aid awarded. For all types of aid combined (Federal and non-Federal) the average administrative cost was $60.00 per recipient, and $3.82 per $100.00 of aid awarded.

The National Commission study included an analysis of the level of effort (and therefore, resources) devoted to the various functions operating within the financial aid process. Based on observations from the nine institutional site visits, the study ranked major functions by level of effort as follows:

- Heavy Effort Functions:
    - Outreach
    - Accounting and collection.
- Medium Effort Functions:
    - Needs analysis and eligibility determination
    - Packaging and awarding.
    - Otner administrative activities (e.g., personnel administration, planning, etc.).

- Low Effort Functions:
  - Reporting, regulatory reviews and program audits.[1]

Again, interviewees have noted some concern about the accuracy of these classifications.

The study defined level of effort in terms of the proportion of full-time equivalent staff resources (FTE) devoted to a particular function or activity. Presented in Figure 5.1-2 is a summary of the level of effort devoted to the major student aid functional areas discussed in the National Commission report, broken down by type of institution surveyed. It should be noted that this functional categorization differs from the subsystem and activity categorization used for the purposes of this project.

Data on the distribution of total administrative costs (personnel and non-personnel costs combined) across major functional areas are similar to those regarding the distribution of FTEs. Presented in Figure 5.1-3 are the proportions of total administrative costs attributable to the various functional areas, broken down by type of institution surveyed.

An assessment of institutional administrative costs related to the current Federal student aid delivery system should consider the rate at which institutions are reimbursed for such costs through Federal subsidies. In order to arrive at such a measure, the National Commission study compared total Campus-Based administrative costs for the delivery of student aid to the amount of Federal reimbursement represented by the administrative cost allowance (ACA) and the College Work-Study (CW-S) student wage subsidy. The CW-S subsidy is not a direct cost allowance, in that the school may or may not choose (or be allowed to) employ CW-S students. Institutions also began receiving ACA's for the Pell program in 1980-81 at the rate of $10 per recipient. That allowance was discontinued in June of 1981 after some, but not all, institutions had claimed funds due. No ACA was authorized for 1981-82, but a $5 per recipient ACA was authorized for 1982-83.

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[1] The National Association of College and University Business Officers (NACUBO) has questioned whether the data included costs of external auditing, inasmuch as many institutions have expressed concern about the costs being incurred for financial aid auditing.

FIGURE 5.1-2

STAFFING PATTERNS BY MAJOR FUNCTIONAL AREAS AND BY TYPE OF INSTITUTION (FY 1982)

Function	Average FTE Staff by Type of Institution				
	Public (Percent)	Private (Percent)	Community (Percent)	Proprietary (Percent)	Range (Percent)
1. Outreach, counseling, application distribution, and receipt	30.0	16.0	21.8	26.7	16.0 - 30.0
2. Needs analysis and eligibility determination	8.3	17.3	15.3	9.9	8.3 - 17.3
3. Packaging and awarding	14.4	15.2	16.5	15.1	14.4 - 15.1
4. Reporting, regulatory review, and program audits	9.1	10.1	12.3	10.0	9.1 - 12.3
5. Accounting and collections	23.2	22.7	18.8	16.6	16.6 - 23.2
6. All other activities	15.0	18.7	15.3	21.7	15.0 - 21.7
Total	100.0	100.0	100.0	100.0	

Source: "Study of the Costs to Deliver Student Financial Aid on Campus."

FIGURE 5.1-3

DISTRIBUTION OF TOTAL ADMINISTRATIVE COSTS BY MAJOR FUNCTIONAL AREAS AND BY TYPE OF INSTITUTION (FY 1982)

Function	Average FTE Staff by Type of Institution				
	Public (Percent)	Private (Percent)	Community (Percent)	Proprietary (Percent)	Range (Percent)
1. Outreach, counseling, application distribution and receipt	21.5	15.4	16.3	22.1	15.4 - 22.1
2. Needs analysis and eligibility determination	8.4	12.6	18.9	8.8	8.4 - 18.9
3. Packaging and awarding	14.8	15.2	16.5	19.9	14.8 - 19.9
4. Reporting, regulatory review, and program audits	9.3	9.8	12.6	7.7	7.7 - 12.6
5. Accounting and collections	30.7	28.7	20.2	25.4	20.2 - 30.7
6. All other activities	15.3	18.3	15.6	16.2	15.3 - 18.3
Total	100.0	100.0	100.0	100.0	

Source: "Study of the Costs to Deliver Student Financial Aid on Campus."

For the CW-S wage subsidy element, only the wage subsidy for students employed in financial aid administration were included. Of the nine schools surveyed, only seven employed CW-S students in financial aid administration. The two proprietary institutions included in the survey are prohibited from employing CW-S students on campus by program requirements. Of these seven schools, wage data for CW-S students employed in financial aid administration were only available at six campuses. Therefore, the total cost vs. subsidy figures discussed here represent only a partial estimate of this measure.

Among the six institutions included in the calculation of total Federal subsidies as a percent of actual institutional administrative costs, the proportion of total costs recovered through Federal subsidies during FY 1982 ranged from 32 percent to 83 percent. On average, the six schools reportedly recovered 55.5 percent of their total costs. Interestingly, the schools at the high and low ends of this range were both two-year community colleges, suggesting that type of institution (at least among nonproprietary schools) is not a determinant of the proportion of total costs recovered through Federal subsidies. This data is an underestimate of subsidization, in part because of the CW-S jobs not included in this analysis, and in part due to recent implementation of the Pell ACA.

"A Study of Program Management Procedures in the Campus-Based and Basic Grant Programs (SISFAP)," Applied Management Sciences, Inc., U.S. Department of Education 1980.

This report was one component of a larger study conducted for the U.S. Office of Education during 1978-79 and 1979-80, formally entitled "Study of the Impact of Student Financial Aid Programs," or SISFAP. Data extracted from this report were collected during site visits to a sample of 173 colleges, universities, vocational-technical schools, and other postsecondary institutions participating in the Basic Educational Opportunity Grant (BEOG, which is now Pell) and Campus-Based student aid programs. Administrative cost data extracted from the SISFAP data base and presented here are for the 1978-79 academic school year. It should be noted that there have been significant changes in the programs since that time, e.g., increased

Pell validation, and changes in the GSL needs test requirements. Summary data were obtained for the following administrative cost/activity measures:

- Mean number of FTE staff devoted to financial aid administration, by personnel category and by type of institution.
- Mean gross salaries of financial aid staff, by personnel category and by type of institution.
- Mean percent annual work time devoted to various student aid program components, by personnel category and by type of institution.
- Mean total dollars expended on nonsalary costs, by cost category and by type of institution.

Presented in Figure 5.1-4 are summary data on the mean number of full-time and part-time financial aid office staff among the 173 institutions visited during the 1978-79 school year. Also presented are the mean gross salaries (excluding fringe benefits) of financial aid office staff. Both measures are broken down for four-year public and private, two year public and private, and proprietary institutions.

The data in Figure 5.1-4 indicate that, for all types of institutions, financial aid offices averaged 4.9 full-time employees and 3.0 part-time staff, with total salary expenses not including benefits of $62,500. The four-year public institutions surveyed had total employment and payrolls roughly twice as large as the averages for all institutions. This result be expected, due to the generally large size of the public universities and the composition of their student bodies. Two-year private and proprietary institutions had the fewest total employees and the lowest gross salary costs, on average.

Presented in Figure 5.1-5 are data which reflect the relative levels of administrative effort devoted to the BEOG (now Pell) and Campus-Based programs (SEOG, NDSL, CW-S), as well as non-Federal aid programs, in terms of the mean proportions of annual work time expended in each area by professional and clerical staff.

For all types of institutions combined, the largest portion of available time for both professional and clerical staff was found to be devoted to the BEOG program (29.6 percent and 24.6 percent respectively). All other aid programs (state,

FIGURE 5.1-4

MEAN NUMBER OF FINANCIAL AID OFFICE EMPLOYES AND MEAN GROSS SALARIES[1] (EXCLUDING FRINGE BENEFITS) BY PERSONNEL CATEGORY AND BY TYPE OF INSTITUTION (1978-1979 ACADEMIC YEAR)

Personnel Categories	Type of Institution					
	All Types	4-Year Public	4-Year Private	2-Year Public	2-Year Private	Proprietary
Mean number of full-time employees						
Professional	2.4	4.4	2.0	1.5	0.9	1.2
Clerical	2.5	5.7	1.3	1.8	0.4	0.7
Total	4.9	10.1	3.3	3.3	1.3	1.9
Mean number of part-time employees						
Professional	0.6	0.6	0.6	0.3	0.7	0.9
Clerical	2.4	5.0	1.5	1.3	1.7	0.8
Total	3.0	5.6	2.1	1.6	2.4	1.7
Mean gross salaries (excluding fringe benefits)						
Professional	$ 38,100	$ 68,700	$ 26,700	$25,100	$ 18,200	$23,100
Clerical	24,400	55,100	11,000	15,800	7,700	5,500
Total	$ 62,500	$123,800	$ 37,700	$40,900	$ 25,900	$28,600

[1] Total payroll.

Source: SISFAP Institution Questionnaire.

FIGURE 5.1-5

MEAN PERCENT OF ANNUAL WORKTIME DEVOTED TO VARIOUS STUDENT AID PROGRAM COMPONENTS, BY PERSONNEL CATEGORY AND BY TYPE OF INSTITUTION (1978-1979 ACADEMIC YEAR)

	Type of Institution					
Personnel Categories	All Types (Percent)	4-Year Public (Percent)	4-Year Private (Percent)	2-Year Public (Percent)	2-Year Private (Percent)	Proprietary (Percent)
Mean percent of annual worktime devoted by professional staff						
BEOG	29.6	27.9	21.9	35.7	25.5	40.5
SEOG	10.5	7.8	11.1	10.0	10.6	15.9
NDSL	16.7	14.7	19.2	12.5	16.9	20.4
CW-S	20.3	22.1	18.0	23.9	22.2	9.9
Other programs	23.0	23.3	27.9	20.0	30.5	15.0
Mean percent of annual worktime devoted by clerical staff						
BEOG	24.6	30.4	17.4	31.0	9.0	25.7
SEOG	6.4	7.4	6.5	5.1	3.3	6.3
NDSL	14.0	13.9	16.3	14.0	6.4	11.6
CW-S	18.0	19.8	19.7	17.9	10.7	7.3
Other programs	22.8	22.3	26.0	23.7	33.6	13.8

Source: SISFAP Institution Questionnaire.

institutional, civic, etc.) consumed 23.0 percent of professional staff time and 22.8 percent of clerical staff time, making this the second highest category. Although SEOG, NDSL and CW-S accounted for lower levels of staff time individually, the combined totals for the three Campus-Based programs exceeded those for both BEOG and other aid programs by considerable margins (47.5 percent of professional and 38.4 percent of clerical staff time). The percent of staff time devoted to BEOG was highest among the two-year public and proprietary institutions, and lowest among the four-year and two-year private schools. This would be expected due to the relatively higher family incomes among students attending the private institutions.

Presented in Figure 5.1-6 are mean dollar amounts expended on nonsalary administrative costs, broken down by cost category and type of institution. The data shown in Figure 5.1-6 are combined for all programs administered by the schools.

As shown in Figure 5.1-6, the average total nonsalary expenditure for all types of institutions during the 1978-1979 school year was approximately $25,000. Fringe benefits for salaried student aid administrative staff was by far the largest single cost category, at over $8,900 on average, demonstrating the labor-intensive nature of student aid delivery operations on campus. Nonspecified costs (rent, utilities, etc.) was the second largest category, averaging more than $5,500. Computer costs, however, averaged nearly as much ($5,100), reflecting the increasing importance of automation in Campus-Based administrative operations. Of all the school types, only the proprietary institutions relied to a significant extent on support from outside consultants; they expended an average of $564, or more than 20 percent of their total nonsalary costs, on consultant fees for filing the FISAP forms.

Fiscal-Operations Report and Application to Participate

Another source of current institutional data, is the annual fiscal operations/application report (FISAP) which institutions participating in the Campus-Based programs file with the Federal government. Figure 5.1-7 presents the mean administrative cost allowance (ACA) per institution as reported on the 1979-80 and 1980-81 FISAP. The Federal government allows a percentage of the institutions' funding to be used to cover administrative costs for the three Campus-Based

FIGURE 5.1-6

MEAN DOLLAR EXPENDITURES FOR NONSALARY STUDENT AID ADMINISTRATIVE COSTS BY COST CATEGORY AND BY TYPE OF INSTITUTION (1978-1979 ACADEMIC YEAR)

Personnel Categories	Type of Institution					
	All Types	4-Year Public	4-Year Private	2-Year Public	2-Year Private	Proprietary
Fringe benefits	$ 8,957	$18,637	$ 5,037	$ 6,238	$ 1,772	$ 2,560
Computer costs	5,095	12,896	3,290	1,042	506	909
Telephone and postage	2,903	5,687	2,350	1,225	1,003	888
Consultant fees for filing FISAP	92	-0-	-0-	12	-0-	564
Program audits	1,422	2,301	1,386	790	650	818
Travel for training and meetings	982	1,371	943	743	599	720
All other nonsalary costs	5,549	10,372	5,615	2,145	739	486
Total	$25,000	$51,264	$18,621	$12,195	$ 5,269	$ 6,945

Source: SISFAP Institution Questionnaire.

FIGURE 5.1-7

MEAN ADMINISTRATIVE ALLOWANCE PER INSTITUTION BY PROGRAM AND FUNCTION

Program or Function	1979-80 FISAP	1980-81 FISAP
NDSL Administrative Cost Allowance	7,469	10,693
SEOG Administrative Cost Allowance	3,178	3,755
CW-S Administrative Cost Allowance	6,425	7,962

Source: FISAP, 1979-80 and 1980-81.

programs. These amounts should be subtracted from total administrative cost to arrive at net administrative costs to institutions for administering the Campus-Based programs. These figures do not represent actual expenditures on administration, in part due to the ability of the schools to choose to use these funds for awards, rather than as an ACA.

List of Active Reports Approved Under the Federal Reports Act,
Office of Postsecondary Education, U.S. Department of Education, 1983.

This document contains a list of the reports currently being submitted to the Department of Education with an estimate of the hours required to complete them. The estimates are usually made by the branch chief originating the forms; Figure 5.1-8 provides the estimates for forms completed by the institution. Financial aid administrators who commented on this data believe that these numbers are gross underestimates. In particular, one administrator of a large university noted that it takes at least ten times the estimate of 16.5 hours to complete the Student Validation Roster.

5.1.3 EFFECT BY ACTIVITY

The costs reported below vary greatly across individual institutions, due to differences in institutional types, size, policies, level of automation, etc. Data from the site visits are included in the sections below where applicable, as well as data presented above.

Pell Grant Component

Pre-Application Subsystem

Many of the activities in this subsystem, although initiated by the Federal government, have definite impact upon institutional administrative costs. The development and promulgation of Federal regulations affects institutional administrative costs by affecting the amount and type of forward planning FAAs are able to perform in conjunction with institutional administrative actions. To the extent that new regulations contain significant changes from the previous year, the timeliness with which they are announced impacts the effective and efficient management of staff and support resources on campus. The timing of Federal decisions, and the related uncertainty, has been a major problem for schools in recent years. Data

FIGURE 5.1-8

ESTIMATES FOR COMPLETION OF FORMS

Report	Annual Responses	Time Per Response	
Pell Grant Student Validation Roster	5,000	16.5	Hours
Pell Grant Progress Report	15,000	45	Minutes
FISAP	4,330	38.5	Hours
Student Confirmation Report for GSL	22,500	1	Hour
NDSL Loan Assignment Form	247,500	30	Minutes
NDSL Report of Defaulted Loans As of December 30	3,200	30	Minutes

Source: List of Active Reports Approved Under the Federal Reports Act as of 3/31/83.

presented in the National Commission's FY 1982 study found that "reviewing Federal regulations" accounted for between 0.3 and 4.4 percent of total administrative costs to institutions.

The development of Federal forms for use in the delivery system affects policy decisions regarding the amount and type of information to be collected on campus, and the allocation of resources used to collect it. Year-to-year changes in the forms used cause increased administrative activity to bring campus-specific forms into conformance with the new requirements. The National Commission's study found that "Federal reporting" accounted for between 1.0 and 6.4 percent of total costs to institutions. Institutions also must adapt to frequent revisions of Federal procedures used to administer the Pell program. The National Commission study found that "planning and budgeting" accounted for between 0.2 and 4.0 percent of total costs to institutions.

Institutions participating in the Regular Disbursement System (RDS) also incur administrative costs to complete the procedures required to request and establish either the Letter of Credit or Cash Request System payment method. For the Letter of Credit method, institutional costs are determined by the level of administrative effort needed to compile and verify information on the level of funds required, to provide mandatory information to ED, and to coordinate the receipt of funds through the Federal Reserve or local commercial bank. The actual level of activity is probably higher for the Cash Request System since funds must be requested monthly directly from the Federal government, and institutions must prepare and submit the Initial Request for Funds and the Cash Advance Forms. Also, the administrative costs of managing a monthly cash flow of Federal payments could be significantly higher than having funds against a letter of credit account on an "as needed" basis.

Student Application, Eligibility Determination and Benefit Calculation Subsystems

Determination of student eligibility for Pell Grants involves costs to institutions associated with collecting, verifying and processing information on student applicants, although a significant amount of processing is done by the Federal central processor. The National Commission study found that "eligibility determination and verification" accounted for between 0.4 and 13.0 percent of total administrative costs for all programs.

Collecting and processing the family income and dependency data required for Pell Grant validation also affect administrative costs to institutions. The National Commission study found that "Pell Grant validation" accounted for between 0.7 and 6.0 percent of total costs. However, institutions visited during this project noted that validation is an extremely cumbersome and time-consuming activity, in particular due to recently increased requirements. Calculation of Pell Grant awards, as part of the institutional packaging and awarding of aid, constitutes a large portion of administrative costs. The National Commission study found that "packaging and awarding aid" accounted for between 10.5 and 25.5 percent of total costs for all programs.

Institutions participating in the Alternate Disbursement System (ADS) also incur administrative costs for student award calculation. The institution must complete Part B of ED Form 304 or 304-1 "Request for Payment of Pell Grant," and submit it to the Federal government. No estimate of either the proportion of total costs, or the unit cost of completing Part B of Forms 304 or 304-1, was identified; however, given the slightly lower level of institutional involvement under ADS compared to RDS, the cost associated with this activity can be expected to be somewhat lower. ED estimates it takes 20 minutes to complete a Form 304 or 304-1 for each student.

Funds Disbursement Subsystem

Disbursement of Federal funds to institutions involves the costs of complying with the relevant procedures. Costs beyond those attributable to establishing a Letter of Credit or Cash Request System include those associated with preparing and submitting Progress Reports and SARs to ED three times during the award year, as well as ad hoc Progress Reports and SARs when necessary. ED estimates that it requires 45 minutes to complete a Progress Report. The National Commission Study found that "Federal reporting" accounted for 1.0 to 6.4 percent of total administrative costs for all programs.

For institutions participating in the RDS disbursement system, payments to students must be disbursed at least twice a year. The National Commission study found that "packaging and awarding aid" accounted for between 10.5 and 25.5 percent of total administrative costs for all programs. The institutions electing to use the ADS incur fewer administrative costs in disbursement-related activities. As noted above, these institutions must verify students' enrollment status, receive and process ED Forms 304 or 304-1, and submit the information to ED. However, ADS institutions do not actually disburse Pell Grant payments to students.

Account Reconciliation Subsystem

RDS institutions incur administrative costs for individual student account reconciliation, and schools with a large recipient population find this activity difficult. The National Commission study found that "eligibility determination and verification" accounted for between 0.4 and 13.0 percent of total administrative costs, and that that "billing and collections" accounted for between 5.0 and 24.2 percent of total administrative costs for all programs. For institutional account reconciliation, ED estimates that it requires 16.5 hours to complete the student validation roster.

Administrative costs associated with Federal program reviews and audits depend in part on the frequency of these reviews, and the arrangements the school makes with independent auditors. One school visited noted that their financial aid audits now cost as much as school-wide audits. The National Commission study found that "program reviews and audits" accounted for between 0.1 and 2.0 of total administrative costs for all programs. As noted earlier, it is not clear whether the costs of external audits were included.

GSL Component

Pre-Application Subsystem

Many of the activities in the GSL pre-application subsystem have basically the same effect on institutional administrative costs as those noted under for Pell, in part because many of these activities are integrated across programs. However, GSL forward planning is also significant for lenders and state agencies as well as schools because of the roles of these groups in these programs.

Student Application, Eligibility Determination, and Benefit Calculation Subsystems

Institutions incur costs related to completing the institutional portion of GSL applications, determining applicant's adjusted gross income, and assessing need.

Schools also counsel students on GSL requirements and procedures during this period. FAAs interviewed noted that administrative costs tend to be higher at schools with a large high income population, due to the more frequent need to apply a needs test.

The National Commission study found that "application processing" accounted for between 3.0 and 17.2 percent of total administrative costs for all programs and that "eligibility determination and verification" accounted for between 0.4 and 13.0 percent of total administrative costs. "Packaging and awarding aid" accounted for between 10.5 and 25.5 percent of total costs for all programs. Institutions which determine loan amounts and are also lenders, or have an origination agreement with lenders, would incur additional costs, as would schools who provide a large amount of assistance to students to help locate lenders.

Funds Disbursement Subsystem

Because most loan checks are made out jointly to the student and the school, costs are also incurred to process these checks.

Account Reconciliation Subsystem

Institutions must confirm and report the enrollment status of GSL recipients by receiving and processing the School Confirmation Report (SCR) from state agencies. Many schools receive SCRs from multiple agencies in varying formats, which makes the process of completing this activity time-consuming and expensive. ED estimates it requires one hour to complete one SCR for the FISL program. Each GA SCR received probably takes at least an equivalant amount of time. It is likely that the SCR from the state within which the school is located is substantially more time consuming because of the larger number of borrowers to be tracked. The National Commission study found that "Federal reporting" accounted for between 1.0 and 6.4 percent of total administrative costs for all programs.

Institutional audits and reviews are integrated across the three programs, and are discussed under the Pell component above.

Campus-Based Component

Pre-Application Subsystem

Again, many of the institutional administrative costs associated with pre-application activities cut across the Title IV programs. Refer to the pre-application subsystem of the Pell Grant Component for a discussion of these issues.

Administrative costs specific to the Campus-Based programs included completion and submission of the FISAP. ED estimates it requires 38.5 hours to complete the FISAP. Based on data from the FISAP, it appears that the "out-of-pocket" cost of preparing this form depends in large part on whether or not the activity is performed by the institution. SISFAP data indicate that proprietary institutions expended an average of $564 on consultant fees for filing FISAP, while the other types of institutions had insignificant or nonexistent consultant costs in this area.

If an institution appeals its tentative allocation from ED, costs are associated with compiling the additional documentation needed to make an appeal to the National Appeals Board. Institutions visited commented that this process is overly cumbersome and time-consuming.

Student Application, Eligibility Determination, and Benefit Calculation Subsystems

Administrative costs to institutions are expended on receiving and processing student applications for Campus-Based aid. Most schools subscribe to national need analysis services to collect and process this data, or use information collected on the Federal Pell application. The National Commission study found that "application processing" accounted for between 3.0 and 17.2 percent of total costs for all programs; "eligibility determination and verification" accounted for between 0.4 and 13.0 percent. Many institutions also verify or validate information collected from students for all aid programs. Costs for verification of data will vary depending on the method used for verification, and the number and type of applications verified. Finally, conducting required need analyses and calculating the award amounts for which students are eligible can represent significant administrative costs for institutions administering the Campus-Based programs. The National Commission study found that "packaging and awarding aid" accounted for between 10.5 and 25.5 percent of total adminstrative costs for all programs.

Funds Disbursement Subsystem

Institutions must process award acceptance letters and disburse funds to students. In the case of NDSL, promissory notes must also be processed. In many cases, disbursement consists of crediting the student's account. However, CW-S checks must be issued to the student on a monthly basis. The National Commission study found that "disbursing funds" accounted for between 4.2 and 8.9 percent of total FTE staff time for all programs.

Account Reconciliation Subsystem

Reconciliation involves the costs of monitoring and reviewing students' eligibility and aid status to determine if overawards exist, deducting overawards from subsequent payments, and balancing expenditures with payments. Reconciling accounts on a student-by-student basis was noted to be an extremely difficult process in the site visits.

CW-S reconciliation also involves the costs associated with monitoring student pay, notifying employers when students have earned the maximum award amount, deducting overawards, and transferring funds from SEOG to CW-S or from year to year. NDSL repayment involves the costs to institutions of collecting the student data needed to allow repayment of NDSL loans, informing students of their repayment obligations when they leave school and when their grace period has expired, and monitoring payment progress. In addition, loan cancellations, deferments and defaults must be processed. FAAs have cited these activities as one of the most costly among all Federal student aid programs because repayment may continue for as many as 17 years after the student leaves the institution. The National Commission study found that "billing and collections" accounted for between 5.0 and 24.2 percent of total administrative costs to institutions. Proprietary institutions experience the highest costs in this area. ED also estimates it requires 30 minutes to complete a Loan Assignment Form. In addition, "accounting" represents between 5.9 and 15.0 percent of total administrative costs for all programs, according to the National Commission.

The costs of program reviews and audits are discussed under the Pell component above, and are integrated across all three programs.

5.2 CERTAINTY OF FUNDS (INSTITUTIONS)

5.2.1 OVERVIEW

Definition

Certainty of funds for institutions is the probability that a given institution will actually receive the amount of funding expected, and/or the probability that funding will be received at the time it is expected. Expectations involve subjective judgments that will change as new information is received or assimilated, so the degree of certainty that institutions have will change over time. This effect is also important because it may influence program participation decisions.

Summary

Data from the Pell Grant Disbursement System and FISAP demonstrate that institutions do not usually receive their requested authorizations in either the Pell or Campus-Based programs. This does not necessarily imply that schools are being underfunded, merely that, in general, authorizations fall short of requests. This finding suggests that certainty of funds can create cash flow and fund forecasting problems for institutions. In addition, the three to four weeks necessary for the Federal government to process a Progress Report and adjust Pell Grant authorization levels also causes problems at the institutional level.

Testimony from the site visits and public hearings indicates that institutional certainty of funds is negatively affected by the lack of timeliness of Federal decisions and dissemination of information regarding changes in the Title IV aid programs. Specifically noted were the delays in recent years regarding determination of the Pell Grant award schedule and the timing of the decision to reinstitute income ceilings on GSL need determination. Also noted as affecting institutional certainty of funds was the Federal decision to tighten initial authorization of funds for the Pell program, causing a significant number of institutions to receive less funds than requested to meet actual disbursement needs.

5.2.2 FINDINGS

To determine the institutional certainty of funds, several data sources were used. This section reviews pertinent data collected from the Pell Grant Disbursement System, the FISAP, site visits, and public hearings.

Pell Grant Disbursement System

Data obtained from the Federal Pell Grant Disbursement System provide several appropriate measures of the certainty of funds for institutions as defined above. These data permit a comparison of the amounts of funds requested for Pell Grants to the amounts actually received by institutions.

There are two systems for disbursing funds in the Pell program: the Regular Disbursement System (RDS) and the Alternate Disbursement System (ADS). Under RDS, which covers about 99 percent of all recipients, funds are disbursed to institutions which then disburse grants to student recipients, either directly or by crediting their accounts. Under ADS, students receive payments directly from the Federal government. Institutions choose one of these disbursement systems. ADS institutions are predominantly small proprietary schools which may not have the necessary resources or procedures for receiving Pell funds and disbursing them to their students.

Presented in Figure 5.2-1 are the dollar differences between RDS institutional requests and the funds actually received. Data are presented by type of institution and by timing of request during the academic year, for three different school years: 1979-80, 1980-81, and 1981-82. The higher differences between funds requested/received during 1980-81 and 1981-82 reflect a tightening of control over funds for Pell Grants during those years.

Presented in Figure 5.2-2 are data on the number and percent of institutions for which Pell authorizations equaled or exceeded their requests, and those for which authorizations were less than the requested amount. The data indicate that the majority of schools (especially during 1980-81 and 1981-82) did not receive the amount of funds requested, resulting in a fairly pervasive degree of uncertainty among institutions, not about the eventual availability of funds (due to the entitlement nature of the program), but about the timing of that availability.

Figure 5.2-3 compares Pell authorizations at the time of the first Progress Report to one-half of the total expenditures for the year as a proxy of the amount that would have been needed to cover initial disbursements. This will overstate the need for schools on the quarter and clock-hour systems, but perhaps understate the

FIGURE 5.2-1

MEAN AND SUM DOLLAR DIFFERENCES
BETWEEN REQUESTS FOR FUNDS AND FUNDS RECEIVED FOR THE PELL PROGRAM
BY TYPE OF INSTITUTION AND TIMING OF PROGRESS REPORT:
1979-80, 1980-81, 1981-82
(SUMS IN MILLIONS)

	Ad Hoc (Jul-Oct)			October			Ad Hoc (Nov-Feb)			February			Ad Hoc (Mar-Jun)		
Institution Type	N	Mean (000)	Sum (M)	N	Mean (000)	Sum (M)	N	Mean (000)	Sum (M)	N	Mean (000)	Sum (M)	N	Mean (000)	Sum (M)
1979-80															
Four-Year Public	2	-53	-0.1	480	-28	-13	19	-20	-0.4	482	-52	-25	40	-243	-10
Four-Year Private	15	-11	-0.1	1,078	-14	-15	42	-11	--0.5	1,119	-13	-14	152	-3	-0.4
Two-Year Public	7	-5	-0.03	912	-23	-21	27	-37	-1	915	-16	-15	130	-11	-1
Two-Year Private	14	-8	-0.1	389	-5	-2	24	-4	-0.1	399	-9	-3	66	-1	-0.06
Proprietary	128	-25	-3	1,759	-8	-15	126	-10	-1	1,796	-10	-17	269	-7	-2
Total	**166**	**-22**	**-4**	**4,618**	**-14**	**-66**	**238**	**-14**	**-3**	**4,711**	**-16**	**-76**	**657**	**-21**	**-14**
1979-80															
Four-Year Public	24	-207	-5	481	-199	-96	32	-62	-2	480	-65	-31	113	-36	-4
Four-Year Private	30	-92	-3	1,117	-44	-50	63	-26	-2	1,127	-19	-22	327	-6	-2
Two-Year Public	42	-182	-8	918	-68	-62	69	-40	-3	918	-34	-32	235	-7	-2
Two-Year Private	24	-30	-0.7	396	-17	-7	30	-10	-0.3	399	-9	-4	108	-2	-0.2
Proprietary	272	-49	-13	1,830	-29	-52	291	-33	-10	1,864	-22	-41	816	-7	-6
Total	**392**	**-75**	**-29**	**4,742**	**-56**	**-267**	**485**	**-34**	**-16**	**4,788**	**-27**	**-129**	**1,619**	**-9**	**-14**
1981-82															
Four-Year Public	4	-125	-0.5	476	-163	-78	44	-37	-2	311	-37	-11	20	-32	-0.6
Four-Year Private	9	-90	-0.8	1,127	-35	-40	61	-19	-1	852	6	-5	69	-3	-0.2
Two-Year Public	7	-78	-0.5	916	-70	-64	60	-42	-3	687	-13	-9	67	-3	-0.2
Two-Year Private	10	-9	-0.09	387	-11	-4	31	-8	-0.2	303	-2	-0.5	39	0	0
Proprietary	112	-42	-10	1,906	-38	-73	356	-35	-12	1,345	-12	-16	232	-7	-2
Total	**142**	**-86**	**-12**	**4,812**	**-54**	**-258**	**552**	**-33**	**-18**	**3,458**	**-12**	**-42**	**427**	**-6**	**-3**

Source: Pell Grant Disbursement Data.

FIGURE 5.2-2

FUNDS RECEIVED AS A PERCENTAGE OF FUNDS REQUESTED FOR THE PELL PROGRAM BY TYPE OF INSTITUTION AND TIMING OF PROGRESS REPORT

Institution Type	Ad Hoc (Jul-Oct)		October		Ad Hoc (Nov-Feb)		February		Ad Hoc (Mar-Jun)	
	Auth. Equals Request	Auth. Less Than Request	Auth. Equals Request	Auth. Less Than Request	Auth. Equals Request	Auth. Less Than Request	Auth. Equals Request	Auth. Less Than Request	Auth. Equals Request	Auth. Less Than Request
1979-80										
Four-Year Public	50% 1	50% 1	81% 389	19% 91	19% 13	32% 6	54% 258	46% 224	67% 31	23% 9
Four-Year Private	67% 10	33% 5	83% 899	17% 179	83% 35	17% 7	68% 761	32% 358	86% 130	14% 22
Two-Year Public	71% 5	29% 2	62% 561	38% 351	85% 23	15% 4	57% 518	43% 347	81% 105	19% 25
Two-Year Private	71% 10	29% 4	78% 303	22% 86	83% 20	17% 4	76% 305	24% 94	80% 53	20% 13
Proprietary	31% 40	69% 88	59% 1,045	41% 714	67% 84	33% 42	52% 928	48% 868	72% 193	28% 76
Mean **Total**	**40%** **66**	**60%** **100**	**69%** **3,197**	**31%** **1,421**	**74%** **175**	**26%** **63**	**59%** **2,770**	**41%** **1,941**	**78%** **512**	**22%** **145**
1980-81										
Four-Year Public	46% 11	54% 13	27% 131	73% 350	44% 14	56% 18	25% 120	75% 360	58% 66	42% 47
Four-Year Private	20% 6	80% 24	46% 513	54% 604	57% 36	43% 27	30% 334	70% 793	73% 239	27% 88
Two-Year Public	26% 11	74% 31	24% 217	76% 701	42% 29	58% 40	17% 158	83% 760	64% 164	36% 91
Two-Year Private	54% 13	46% 11	56% 220	44% 176	67% 20	33% 10	47% 187	53% 212	83% 90	17% 18
Proprietary	14% 38	86% 234	26% 468	74% 1,362	27% 78	73% 213	18% 334	82% 1,530	56% 461	44% 355
Mean **Total**	**20%** **79**	**80%** **313**	**33%** **1,549**	**67%** **3,193**	**36%** **177**	**64%** **308**	**24%** **1,133**	**76%** **3,655**	**63%** **1,020**	**39%** **599**

Source: Pell Grant Disbursement Data.

FIGURE 5.2-2 (Continued)

FUNDS RECEIVED AS A PERCENTAGE OF FUNDS REQUESTED FOR THE PELL PROGRAM BY TYPE OF INSTITUTION AND TIMING OF PROGRESS REPORT

Institution Type	Ad Hoc (Jul-Oct)		October		Ad Hoc (Nov-Feb)		February		Ad Hoc (Mar-Jun)	
	Auth. Equals Request	Auth. Less Than Request	Auth. Equals Request	Auth. Less Than Request	Auth. Equals Request	Auth. Less Than Request	Auth. Equals Request	Auth. Less Than Request	Auth. Equals Request	Auth. Less Than Request
1981-82										
Four-Year Public	0%	100%	30%	70%	77%	23%	73%	27%	75%	25%
	0	4	143	333	34	10	226	85	15	5
Four-Year Private	22%	78%	52%	48%	64%	36%	83%	17%	93%	7%
	2	7	581	546	39	22	705	147	64	5
Two-Year Public	0%	100%	20%	80%	45%	55%	64%	36%	84%	16%
	0	7	184	732	27	33	443	244	56	11
Two-Year Private	40%	60%	60%	40%	71%	29%	90%	10%	97%	3%
	4	6	233	154	22	9	272	31	38	1
Proprietary	3%	97%	35%	65%	30%	70%	50%	50%	65%	35%
	3	109	662	1,244	106	250	673	667	151	81
Mean	6%	94%	27%	63%	41%	59%	66%	34%	76%	24%
Total	9	133	1,803	3,009	288	324	2,324	1,174	323	103

Source: Pell Grant Disbursement Data.

FIGURE 5.2-3

INITIAL AUTHORIZATION AS COMPARED TO 50 PERCENT OF TOTAL EXPENDITURES FOR THE YEAR BY INSTITUTION TYPE
1979-80, 1980-81, 1981-82

Institution Type	Initial Authorization Less Than One-Half Total Expenditures		Initial Authorization Greater Than One-Half Total Expenditures	
	N	%	N	%
1979-80				
Four-Year Public	54	11	431	89
Four-Year Private	265	23	873	77
Two-Year Public	161	17	770	83
Two-Year Private	138	33	286	67
Proprietary	571	29	1,374	71
Total/Mean	1,189	24	3,734	76
1980-81				
Four-Year Public	410	84	76	16
Four-Year Private	842	74	298	26
Two-Year Public	769	83	158	17
Two-Year Private	237	57	182	43
Proprietary	1,163	59	820	41
Total/Mean	3,421	69	1,534	31
1981-82				
Four-Year Public	128	27	355	73
Four-Year Private	225	20	917	80
Two-Year Public	317	34	610	66
Two-Year Private	127	31	279	69
Proprietary	930	46	1,103	54
Total/Mean	1,727	35	3,264	65

Source: Pell Grant Disbursement Data

need for traditional semester schools, which typically expend more than half the annual total in the fall semester.

Whereas the previous two figures reflect total requests (including SARs expected to be received during the reporting period), and thus are subject to institutional overstatement as a protection against shortfall of funds on hand at time of disbursement, Figure 5.2-3 infers only amounts needed to cover actual fall payments compared to the initial authorization in effect at the time of submission of the first Progress Report of the year.

Clearly, the inadequacy of the original Pell authorization was worst in 1980-81, when 69 pecent of the institutions had less than half their eventual annual expenditure initially authorized. The situation improved again for 1981-82, when only 35 percent of the authorizations were under one-half the eventual payments to students. Data for 1982-83 are not yet available, but site visit and hearing comments suggest that inadequate authorizations are still a substantial problem for institutions. These data reflect recent Federal actions to control the float on Pell Grant disbursements, which, although desirable from the perspective of the Federal government, can create significant problems for schools.

"Quality in the Basic Grant Delivery System, Stage One,"
Advanced Technology, Inc. and Westat, Inc., U.S. Department of Education, 1982.

Certainty of funds for institutions is also affected by the time between an institution's submission of a Progress Report and the approval of a new authorization. ED estimates this time to be between three and four weeks, although some schools have reported elapsed time of up to six weeks.

Another measure of the certainty of funds effect on institutions is the impact that the funds disbursement has on students. Many institutions are highly dependent on the Pell program to provide timely financial aid to students who are considering enrolling or who have enrolled in their programs. Disbursement system problems that in effect prevent students from attending a given institution adversely affect recruitment efforts and enrollment levels.

As part of the 1980-81 Quality Control Study, institutions were asked, "Do delays in the receipt of adjusted authorizations adversely impact your ability to fund students?" Of the respondents, 31 percent answered "no"; 17.4 percent did not experience delays; 11.5 percent were not affected (ADS schools); and 4.9 percent did not answer the question.

These findings indicate that for almost one-third of the institutions, delays in the authorization process will delay or prevent enrollment of some students. The institutions providing a "no" response to this question most likely defer payment for Pell students until the funds are authorized, while allowing them to proceed with enrollment. This, of course, increases the operating costs borne by the institutions to cover expenses until funds are received, and may require borrowing to cover these expenses.

Fiscal Operations Report and Application to Participate

Data useful in approximating the certainty of funds for institutions as related to Campus-Based programs were compiled from FISAP data for the years 1979-80 and 1980-81. Figures 5.2-4 and 5.2-5 present data pertaining to two measures of the certainty of funds mean percentage of funds authorized vs. funds requested (Figure 5.2-4) and mean and sum dollar amount differences between funds requested and funds authorized (Figure 5.2-5). The data are broken down by program (NDSL, SEOG, CW-S) and type of institution. For the NDSL program, the data used to compare institutional requests to funds received are the Federal Capital Contribution amounts, since this represents the Federal funding for NDSL.

It should be noted that cross-school comparisons shown in Figures 5.2-4 and 5.2-5 may not represent a valid estimate of actual differences among the schools in terms of the proportion of needed funds received. This is because institutions may use different methods to calculate their requests for funds, resulting in varying requests for similar levels of need. Therefore, the fact that a given type of school received a higher percentage of its request than another may not mean that it received a higher proportion of funds compared to its actual needs.

Site Visits

From the site visits and public hearings, it became apparent that institutions are highly concerned about issues related to the certainty of funds. This is especially true about the timing of decisions, such as delays in the release of the

FIGURE 5.2-4

FUNDS RECEIVED AS A PERCENTAGE OF FUNDS REQUESTED BY PROGRAM AND BY TYPE OF INSTITUTION 1979-80 AND 1980-81

(STANDARD DEVIATION IN PARENTHESES)

Institution Type	NDSL[1]		SEOG		CW-S	
1979-80						
Four-Year Public	22%	(21)	53%	(25)	68%	(20)
Four-Year Private	22%	(20)	43%	(24)	59%	(23)
Two-Year Public	23%	(25)	55%	(26)	60%	(21)
Two-Year Private	22%	(25)	50%	(27)	60%	(25)
Proprietary	28%	(24)	39%	(27)	60%	(30)
Total	**24%**	**(23)**	**45%**	**(27)**	**62%**	**(24)**
1980-81						
Four-Year Public	27%	(29)	43%	(23)	58%	(20)
Four-Year Private	30%	(31)	38%	(24)	52%	(22)
Two-Year Public	35%	(39)	49%	(26)	60%	(21)
Two-Year Private	32%	(30)	41%	(23)	54%	(26)
Proprietary	25%	(29)	39%	(27)	55%	(30)
Total	**28%**	**(31)**	**41%**	**(26)**	**55%**	**(24)**

[1] Figures based on Federal Capital Contribution.

Source: FISAP.

FIGURE 5.2-5

MEAN AND SUM DOLLAR DIFFERENCES BETWEEN REQUEST FOR FUNDS AND FUNDS RECEIVED, BY PROGRAM AND BY TYPE OF INSTITUTION: 1979-80 AND 1980 (SUMS IN MILLIONS)

Institution Type	NDSL[1]			SEOG			CW-S		
	N	Mean (000)	Sum (M)	N	Mean (000)	Sum (M)	N	Mean (000)	Sum (M)
1979-80									
Four-Year Public	426	-519	-221	486	-413	-201	498	-332	-165
Four-Year Private	915	-300	-275	986	-356	-351	1,082	-175	-190
Two-Year Public	344	-66	-23	760	-79	-60	754	-76	-57
Two-Year Private	122	-75	-9	211	-94	-20	191	-62	-12
Proprietary	1,157	-109	-126	1,562	-98	-148	755	-42	-32
Total	**2,964**	**-220**	**-653**	**4,005**	**-195**	**-780**	**3,280**	**-139**	**-456**
1980-81									
Four-Year Public	447	-617	-276	494	-593	-293	504	-547	-276
Four-Year Private	1,029	-310	-319	1,102	-403	-444	1,200	-218	-261
Two-Year Public	283	-74	-21	743	-105	-78	791	-93	-74
Two-Year Private	143	-87	-13	249	-108	-27	237	-72	-17
Proprietary	1,109	-106	-118	1,551	-95	-147	616	-53	-33
Total	**3,011**	**-248**	**-746**	**4,139**	**-239**	**-989**	**3,348**	**-197**	**-661**

[1] Figures based on Federal Capital Contribution.

SOURCE: FISAP.

Pell Grant Payment Schedule, which emerged as critical. Additionally, changes in program policy or marginal delivery system changes also have an effect. For example, the decision to place the income ceiling back on GSL affected the certainty of funds for the program. Also the tightening of authorization levels for Pell, particularly in the initial allocation, was a critical concern to many campus representatives. The delay in award decisions was the most universally cited problem relative to certainty of funds.

Information gathered during site visits to institutions shows that during a normal year institutions can be relatively certain they will receive expected funds. During the FY83 delivery year for the Pell program, however, the delay in the Federal decisions about the payment schedule caused problems for many campuses. Institutions were forced to make a choice:

- Give a tentative award based on the prior year's payment schedule, extending credit to the student as necessary, or
- Delay award and extend credit to the students as necessary, or
- Delay the award and do not extend credit.

Most of the institutions included in the site visits selected one of the first two options. Members of the aid community have observed that the delays cause major uncertainties and disruption at some campuses; however, the site visits did not include institutions severely disrupted as a result. For example, Stanford and California State University at Long Beach both made a tentative award; both schools reported relatively little disruption as a result of this decision. There were examples of institutions that were not affected by the delayed decision. The two-year and proprietary institutions visited, such as Western Business College, City Colleges of Chicago, and Sacramento City College, were not negatively affected by this delay, since their students usually do not apply until later in the award year.

The other Federal decision that has affected certainty of funds for some institutions was the decision to exclude schools with high NDSL default rates from NDSL FCC funding. One of the colleges included in the site visits was directly affected by this decision. Chicago City Colleges (CCC) were excluded because their NDSL default rate was in excess of 25 percent, which required the elimination of NDSL from their award packages, except in special cases. CCC has since made improvements in its collections system, but it will require some time for it to bring the default rate back into line. CCC officials pointed out that this rule adversely affects schools that have predominantly low-income enrollment. Administrators at Western Business College were also concerned about this issue. The school has a high percentage of low-income enrollment and is making a special effort to keep its default rate below 25 percent.

5.2.3 EFFECT BY ACTIVITY

Pell Grant Component

The discussion of certainty of funds presented below pertains only to those institutions participating in the Regular Disbursement System. Institutions electing the Alternate Disbursement System are not directly affected, since Pell funds are disbursed from ED directly to the student, but these schools may have to make credit provisions while students await their ADS disbursement.

Pre-Application Subsystem

Many of the activities in this subsystem directly affect institutional certainty of funds. Changes from year to year in the law and regulations governing the Pell program and delivery system, the administration's policy decisions, and the timing of such changes and decisions all create uncertainties for institutions concerning amount and timing of Pell funds. Although no data are available regarding the effect of Federal pre-application activities upon institutional certainty of funds, testimony from institutional financial aid administrators at public hearings and site visits indicates a strong, negative relationship between lateness of Federal actions for this subsystem and institutional certainty of funding.

The time between the expected date of publication of Federal regulations and the actual date of publication can result in uncertainty among institutions, since certain annual revisions (e.g., maximum grant or loan amounts, Expected Family Contribution, etc.) are directly linked to funding levels. In recent years, delays in the publication of critical Federal regulations have left participating schools unsure of the availability of funds for the upcoming academic year.

Initial institution funds authorization affects certainty of funds to the extent that the level of funds requested exceeds the level of funds authorized. Figures 5.2-1 through 5.2-3 contain data reflecting the disparity between funds requested and funds received. In addition, schools' ability to accurately forecast the number and amount of Pell Grants they will ultimately disburse will influence their level of certainty. This forecasting ability is frequently inhibited by the tendency of applicants to not submit their SARs to the school in a timely manner.

Funds Disbursement Subsystem

The disbursement of funds from ED to institutions affects certainty of funds if institutions receive less funding than requested. The lag time between an institution's submission of the Progress Report or an Ad Hoc Request for additional funds also affects certainty if the length of time required is unknown or longer than expected. Figures 5.2-1 and 5.2-2 show the disparity between funds requested and actual funds received for the years 1979-80 through 1981-82. Figure 5.2-3 shows a majority of institutions did not receive the amount of funds needed, based upon SARs actually on hand at time of reporting.

GSL Component

If institution is a lender, has an origination relationship with a lender, or receives copayable GSL checks, it has some responsibility for distributing GSL funds. Institutions may also be affected by processing delays that lengthen the wait for the borrower to apply his or her loan proceeds to his or her account at the school. This issue can be especially problematical if the student has been granted a credit or forebearance on his or her school account. Schools visited also noted that it is difficult to track loan receipts if the check is not made out jointly to the school and student, and that tracking changes in student status can also be difficult.

Campus-Based Component

Pre-Application Subsystem

As with the certainty of funds for the Pell Grant program, the time between the expected date of publication of Federal regulations and the actual date of publication can result in uncertainty among institutions, since certain annual revisions (e.g., requirements for need analysis, Family Contribution Schedule, etc.) are directly linked to funding levels. In recent years, delays in the publication of critical Federal regulations and forms have left participating schools unsure of the availability of funds for the upcoming academic year.

The tentative institutional allocation by ED affects certainty of funds depending upon two factors: the time between institutions' notification of their initial allocations and the start of the academic year; and the decision by the institution to file an appeal. Since the allocation process includes a "hold harmless" provision regulating the extent of reductions in institutional authorizations from year to year, the potential impact of this activity on the certainty of funds is moderated. The magnitude of this effect is largely determined by the timing of the initial allocation, and, if appealed, the time required to process the appeal and notify institutions of the final allocation.

The final allocation affects certainty of funds both in terms of timing of the allocation prior to the start of the academic year, and the difference between tentative and actual final allocations. See Figures 5.2-4 and 5.2-5 for data pertaining to expected and actual institutional authorizations. As the figures indicate, the difference between the institutional request and the final allocation varies for the years noted (1979-80; 1980-81) range from an average of 24 percent for NDSL, 45 percent for SEOG, to 62 percent for CW-S.

Account Reconciliation Subsystem

This subsystem can also affect an institution's certainty of funds because of the NDSL repayment, cancellation, and collections activities. The magnitude of the affect of NDSL repayment is largely determined by the number of NDSL students entering repayment status and their ability to meet the established repayment schedule. Certainty of funds for institutions is also affected by NDSL cancellations, depending upon the time between institutions' requests for Federal payment for cancelled loans and receipt of the funds, and the difference between funds requested and funds actually received. NDSL default also affects certainty of funds for institutions. Failure to maintain a satisfactory default rate can result in reduced or discontinued FCC allocations. Moreover, failure to maximize repayments from prior borrowers will further reduce the revolving loan fund. Federal involvement in loan collection, such as skip-tracing activities, and the effectiveness of collection efforts on assigned and referred loans will also impact the amount of NDSL monies available for relending. See effect 5.4, "Availability of NDSL Loan Capital," for information on these activities.

5.3 FUND CONTROL (INSTITUTIONS)

5.3.1 OVERVIEW

Definition

Fund control is actually a composite of several indicators or proxy measures. One component of fund control is miscalculation/error. It refers to mistakes made by the institution itself or by other participants who are transferring funds or information to the institution. This effect includes errors which influence the determination of applicant eligibility and/or the amount of disbursements and receipts, as well as the ability to capture and correct these errors. These mistakes may be in the form of inaccurate data items or mathematical miscalculations, and may have a positive or negative effect upon the institution. Fund control also refers to the float or deficit between fund receipts and expenditures, i.e., the degree to which funds are received immediately prior to the time when they are to be disbursed. In addition, fund control refers to the schools' ability to track and account for funds, and default and collection rates.

Summary

For institutions, the most apparent problem with fund control is associated with incorrect determination of award amounts, i.e., determination of eligibility and need for the aid programs. This problem is caused by student error in completing the application form, and by institutions when determining program eligibility, cost of attendance, enrollment status, etc. Also, many institutions fail to file the required Statements of Educational Purpose and the Financial Aid Transcripts.

For the Pell Grant program, the lateness of ED's determination and dissemination of the annual payment schedule in recent years caused fund control problems for many institutions because they determined estimated Pell awards which later had to be revised. Data from ED program reviews indicate that institutional accounting systems may be deficient. See also Section 7.5 for further information on miscalculation/error, and 5.2 for information on certainty of funds.

5.3.2 FINDINGS

Institutional fund control is primarily applicable to the Pell Grant and Campus-Based programs where the school has direct responsibilities for handling funds. The GSL program has a lesser effect on institutional fund control since fund transfers primarily involve lenders, GAs, and the Federal government. Schools frequently do depend on GSL checks for payments by the borrower on his or her account. Schools also may serve in a custodial capacity, holding GSL until the borrower enrolls, in cases where the check is sent to the school. Although checks may be issued jointly to the student and school, in all cases the student must sign the loan check before it is cashed. Institutional errors in eligibility certification and enrollment confirmation can, and do, also cause fund control problems for lenders and GAs.

"Quality in the Basic Grant Delivery System, Stage One,"
Advanced Technology, Inc., and Westat, Inc., U.S. Department of Education, 1982.

This study presented the findings from the first stage of the Pell Grant Quality Control project. The review of the institutional records in Stage One involved three major tasks:

(1) Calculate, as accurately as possible, the "correct or verified" enrollment status and cost of attendance for each student in the study using information abstracted from institution records in the spring of the 1980-81 school year.

(2) Determine the values of each student's SAI, cost of attendance, and enrollment status actually used by the Financial Aid Administrator (FAA) in award calculations, and how much the institution has disbursed or was planning to disburse to each recipient in the sample.

(3) Evaluate data collected by institutions in validating or verifying students' categorical eligibility for awards.

General findings from the Stage One QC study indicated substantial error in Pell awards to students during the 1980-81 academic year. While the study found that student applicant error was the primary cause of over- or underpayments to Pell recipients (i.e., the reporting of inaccurate information), institutional errors in award processing were also assessed. Key findings regarding institutional error were as follows:

- All errors relating to institutional procedures resulted in $181 million in net overawards (overawards minus underawards) and affected 42 percent of the recipients.

- Excluding errors involving the collection and retention of the Statement of Educational Purpose and Financial Aid Transcript, the net overaward dropped to $13 million. This figure results from $111 million in overawards (affecting 20 percent of the recipients) and $100 million in underawards (affecting 17 percent of the recipients).

Institution error is broken down by application processing activity in Figure 5.3-1.

The QC Study also collected data on various practices and procedures employed in the administration of the Pell program. Results of a regression analysis relating institution error as the dependent variable to various institutional procedures and characteristics as explanatory variables indicate the following procedures may be significantly related to reduced institutional error:[1]

- Institutional validation of students, which is conducted by 54.4 percent of schools, with 31 percent of those students which institutions validate having their awards altered.

- Computer processing of awards (11.5 percent).

Other procedures included as explanatory variables which were not significantly related to reduced institution error were:

- Whether, and what type of, documentation was routinely required of students.

- Percent of staff attending OSFA training.

- Whether awards calculations are verified and if so, who does the verification.

- Whether enrollment status is checked before disbursement.

- Frequency of disbursement calculations.

The results presented above cannot be used to assess the effectiveness of these institutional fund control procedures with precision, but do provide evidence that there is no straightforward relationship between error rates and institutional practices.

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[1] These findings are contrary in part to the published report as a result of refinements made subsequently in the statistical analysis applied to the data.

FIGURE 5.3-1

INSTITUTION ERROR
BY APPLICATION PROCESSING ACTIVITY
(1980-1981)

Error	Absolute $ Value	Percentage of Recipients Affected
State of Educational Purpose and Financial Aid Transcript Discrepancies	$169 million	7.7%
Program Eligibility Discrepancies	$ 25 million	1.3%
Cost of Attendance Discrepancies	$ 63 million	15.0%
Enrollment Status Discrepancies	$ 94 million	18.2%
Calculation Discrepancies	$ 29 million	15.6%
Bachelor's Degree or Citizenship Discrepancies	$ 3 million	0.2%

Source: Quality in the Basic Grant Program, Stage One.

Another aspect of institutional fund control addressed in the QC study is institutional compliance with Pell validation requirements (see Figure 5.3-2). The results reveal significant institutional problems in complying with validation requirements, in terms of having the necessary documentation on file, and in discrepancies between the data on the SAR and the data on file. Since the time of this study validation requirements and procedures have undergone some improvement.

"Quality in the Basic Grant Delivery System, Stage Two,"
Advanced Technology, Inc. and Westat, Inc., U.S. Department of Education, 1983.

This study contains the results of the Stage Two follow-on analysis of self-correction and institution error for the Pell Grant Quality Control Study. Findings from Stage One of the study are briefly summarized above. The Stage Two analysis presents error estimates based on program data obtained after the completion of the 1980-81 Pell Grant cycle; these error estimates are compared to earlier estimates generated in Stage One.

The key findings of the Stage Two analysis of institutional error, developed from data obtained from the Student Validation Rosters (SVR) were as follows:

- The final Pell Grant error figures showed that there was little or no change in the incidence or magnitude of total student or institution error as compared to the Stage One findings.
- Between the spring 1981 data collection and final account reconciliation, there was a minimal amount of self-correction by institutions of the Student Eligibility Index (now the Student Aid Index), disbursement, cost of attendance, or enrollment status data.
- There was higher probability of change for cases where there was a discrepancy or error found in Stage One, indicating that institutions recognized and tried to correct problems in these cases.
- An almost equal number of cases were found where adjustments to reported data produced errors or discrepancies and where they eliminated them.

Presented in Figure 5.3-3 are data comparing the Stage One error figures and error figures calculated during Stage Two of the Pell Grant Quality Control Study using SVR data. As indicated by the error estimates from both stages, there was virtually no change in the magnitude of institutional error when expressed in terms of an average dollar error per student. The estimate of total institutional error,

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FIGURE 5.3-2

EFFECTIVENESS OF INSTITUTIONAL DATA COLLECTION FOR BEOG VALIDATION, 1980-81

REQUIRED DATA ELEMENT	VALIDATION TOLERANCE	VALIDATED CASES ONLY PERCENT OF RECIPIENTS WITH NO INSTITUTION DOCUMENTATION	 PERCENT OF STUDENT RECORD DATA OUT OF BEOG TOLERANCE[1]	 PERCENT OF STUDENT RECORD DOCUMENTATION DIFFERENT FROM DOCUMENTATION COLLECTED FOR THE 1980-81 QC STUDY[2]
Dependency Status				
Taken As Exemption '79	None	8.7%	8.5%	2.9%
Taken As Exemption '80	None	N.A.	N.A.	N.A.
Support From Parents '79	None	11.1%	12.2%	*[3]
Support From Parents '80	None	11.4%	27.2%	*[3]
Lived With Parents '79	None	10.0%	4.5%	12.6%
Lived With Parents '80	None	10.4%	16.0%	40.7%
Household Size	None	7.7%	13.4%	N.A.
Number in Postsecondary Ed.	None	14.8%	7.6%	N.A.
Adjusted Gross Income	Independent $100 Dependent $500	12.8%	13.9% 10.2%	6.2%
Taxes Paid 1979	Independent $100 Dependent $500	10.9%	13.8% 8.5%	10.3%
Other Nontaxable Income	Independent $100 Dependent $500	31.4%	14.8% 7.2%	50.0%
Dependent Student Income 1979	None	0.0%	33.7%	43.0%

[1] The comparison is between the data item on the SER from which the award was made and on the documentation on file in the financial aid office.

[2] The comparison is between the documentation on file in the financial aid office and on the "best" documentation we collected during the study, in parent interviews, student interviews, or directly from IRS [illegible]. Only study data supported by some type of documentation have been used in these comparisons. These figures do not represent estimates of total error in SHA data.

[3] Starred cases indicate that documentation was not available in a sufficient number of cases to permit reliable statistical analysis.

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FIGURE 5.3-3

COMPARISON BETWEEN STAGE ONE ERROR FIGURES AND ERROR FIGURES CALCULATED USING SVR DATA DURING STATE GWO OF THE PELL GRANT QC STUDY (NOT INCLUDING STATEMENT OF EDUCATIONAL PURPOSE/ FINANCIAL AID TRANSCRIPT ERROR): 1980-81 AWARD YEAR

	Stage One Dollars in Millions	SVR Data Dollars in Millions	Stage One Percent of Recipients	SVR Data Percent of Recipients	Stage One Mean[1]	Data Mean[2]
Institution Error	$ 211	$ 216	37	37	$ 241	$ 241
Student Error	352	348	41	41	363	362
Sum of Student and Institution Errors	$ 563	$ 564	69[2]	69[2]	$ 346	$ 347
Total Dollar Error	$ 527	$ 534	69[2]	69[2]	$ 323	$ 329

[1] Mean for all recipients with error.

[2] Unduplicated count of institution and/or student error.

Source: Quality in the Basic Grant Delivery System, Stage Two.

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expressed in terms of total dollars erroneously disbursed, increased from $211 to $261, while the amount attributable to student error decreased from $352 million to $348 million. These results indicate that the Pell end-of-year reconciliation process does not significantly reduce error made in individual recipient accounts.

Fiscal Operations Report and Application to Participate

Summary FISAP data for the 1979-80 and 1980-81 award years provide some useful measures of fund control among the institutions participating in the SEOG and CW-S programs. Presented in Figure 5.3-4 are data showing the mean percent of final adjusted authorizations for SEOG and CW-S expended during the award year, the mean percent unexpended, and the mean amount of prior year recoveries for the 1979-80 and 1980-81 award years. During 1979-80 the average percent of authorized funds not expended among the participating institutions was 11.3 percent for SEOG and 22.2 for CW-S. During the 1980-81 award year, however, the amount of authorized SEOG and CW-S funds not expended by institutions was almost nonexistent at 0.7 and 1.5 percent, respectively. Average dollar amounts of prior year funds recovered also dropped for both programs between the two award years. SEOG and CW-S had average per-institution recoveries in 1979-80 of $807 and $24, respectively. This dropped to an average of $133 for SEOG and $21 for CW-S during 1980-81. Part of these differences between years is attributable to the addition of a provision which allows schools to carry over or carry back funds between years.

Site Visits

At the University of Florida, several problems were identified which have a negative effect upon the institution's fund control efforts:

- The University has difficulty in obtaining correctly completed Financial Aid Transcripts from other schools.
- ED's lateness in determining and disseminating the annual Pell Grant Payment Schedule sometimes forces the University to package awards using a predicted Pell Grant amount. The University then must adjust the award packages when real numbers become available. In the 1981-82 award year, approximately 80 percent of the award revisions were caused by the Federal government and 20 percent were due to student status changes.

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FIGURE 5.3-4

SEOG AND CW-S FUNDS EXPENDED AND UNEXPENDED AS MEAN PERCENTS OF TOTAL FINAL ADJUSTED AUTHORIZATIONS, AND MEAN DOLLAR AMOUNTS OF PRIOR YEAR RECOVERIES FOR BOTH PROGRAMS: 1979-80 AND 1980-81

	Program	
Fund Status	SEOG	CWS
1979-1980		
Mean percent of authorization expended	88.7%	77.8%
Mean percent unexpended	11.3%	22.2%
Mean prior year recoveries	$ 807	$ 24
1980-1981		
Mean percent of authorization expended	99.3%	98.5%
Mean percent unexpended	0.7%	1.5%
Mean prior year recoveries	$ 133	$ 21

Source: FISAP.

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- The SAR causes great difficulty in maintaining accurate, current recipient data which determine the accuracy of the Pell award. The SAR tape from ED is frequently late, inaccurate, incomplete, and/or incompatible with the University's systems and procedures.

Comments from other FAAs indicate that these problems are universal.

6.3.3 EFFECT BY ACTIVITY

Pell Grant Component

Pre-Application Subsystem

Many financial aid officers note that changes in program regulations and Federal policy and the lack of timely dissemination of information make fund control difficult. Institutions are required to quickly adapt procedures and systems to accommodate the changes, without sufficient time for adequate testing. Forward planning is difficult due to the crisis atmosphere promoted by these late decisions.

Student Application Subsystem

As noted in the "Findings" section, the Stage One Pell Grant Quality Control found that there were substantial errors in the determination of Pell Grant awards, and that the majority of these errors are attributable to student error in completing the application form. Refer to Section 7.5 for a more complete analysis.

Student Eligibility Determination Subsystem

The Stage One Quality Control Study found that, for the 1980-81 award year, institution error due to program eligibility discrepancies accounted for $25 million (absolute value) in incorrect Pell awards, i.e., both over- and under-awards, representing 1.3 percent of the total recipients. In addition, institutional error attributed to discrepancies in the Statements of Educational Purpose and Financial Aid Transcripts accounted for $169 million (absolute value) in incorrect awards affecting 7.7 percent of total grant recipients. However, institutions which perform their own validation beyond ED requirements have marked reductions in award calculation errors. The study found that 54.4 percent of participating institutions perform additional validation activities, resulting in 31 percent of their total Pell Grant award calculations being revised.

Student Benefit Calculation Subsystem

The Stage One Quality Control Study found for the 1980-81 award year that RDS institution error due to actual award calculation discrepancies caused $29 million (absolute value) of incorrect awards affecting 15.6 percent of the total recipients. Also, discrepancies in calculating cost of attendance and in determining enrollment status caused additional problems in fund control. Cost of attendance miscalculations caused $63 million (absolute value) of incorrect awards affecting 15 percent of the total recipients; mistakes in determining enrollment status accounted for $94 million (absolute value) of incorrect awards affecting 18.2 percent of the total recipients.

Funds Disbursement Subsystem

Fund control related to the actual disbursement of Pell awards does not seem to be a significant problem, although institutions visited for this project noted that the calculations of refunds are difficult.

Account Reconciliation Subsystem

The Stage Two Quality Control Study determined that the end-of-year institutional account reconciliation activities, i.e., the SVR verification, does little to reduce errors made in individual recipient accounts, at least if aggregate data are any indication. Institutional audits and program reviews can contribute to institutional fund control to the extent that independent audit and Federal program review findings help identify and remedy any problems.

GSL Component

Unless a school is a GSL lender or receives GSL checks that are copayable to the school and student, schools are not directly responsible for disbursement of GSL funds. Institutional errors in determining eligibility and need, verifying enrollment status and in reporting student status in the GSL program do, however, affect fund control for other participants. Institutions are also affected by the timeliness of receipt of loan proceeds, may be required to process checks for disbursement of GSL funds, and must track student status for lenders and GAs.

Campus-Based Component

Pre-application Subsystem

As with the Pell program, institutional financial aid administrators note that changes in regulations and administrative policy or practices, and lack of timely information dissemination create fund control problems. Institutions are forced to respond and adapt their procedures and systems rapidly to accommodate Federally initiated changes.

Student Application, Eligibility Determination, and Benefit Calculation Subsystems

The high error rate found in Pell application data suggests that institutions may determine eligibility and need for the Campus-Based programs from inaccurate demographic and financial data. This is especially true for institutions which use the SAR generated by the Pell central processor for the Campus-Based programs without review or verification of student-reported data.

The institutional error rate for the Pell Grant program in processing Statements of Educational Purpose and Financial Aid Transcripts, in determining applicant eligibility, in determining cost of attendance and enrollment status, and in actually calculating awards (as analyzed in the Stage One Pell Grant Quality Control Study) suggests that significant error may also be made by institutions in calculating Campus-Based eligibility, need, and award amounts. However, because schools consider Campus-Based funds their "own" money, they may be more careful in determining awards. The reduced institutional error related to increased validation efforts would also seem to be applicable to institutional validation activities for the Campus-Based programs. No specific data are available, however, for specific analysis of fund control in the Campus-Based programs.

Funds Disbursement Subsystem

Fund control related to the actual disbursement of Campus-Based aid does not appear to be a significant problem, although schools visited noted that calculation of refunds can be difficult.

Account Reconciliation Subsystem

As illustrated in Figure 5.3-4, reconciliation efforts for the Campus-Based programs result in recovered funds. As noted, prior year funds recovered through the reconciliation of SEOG accounts averaged $807 per institution during 1979-80, and $133 per institution during 1980-81; prior year funds recovered through the reconciliation of CW-S accounts averaged $24 per institution during 1979-80 and $21 during 1980-81 for all schools combined.

NDSL reconciliation contributes to fund control to the extent that the reconciliation of NDSL accounts results in better collections efforts and a more predictable level of available loan funds. FISAP national data indicate that during 1979-80 award year, the average NDSL Federal Capital Contribution amount not expended by June 30 among all participating institutions was $5,225. This figure dropped to an average of $3,036 for all institutions during the 1980-81 award year.

Institutional audit and ED program review of institutions contribute to fund control to the extent that independent audit and Federal program reviews aid in the amelioration of problems relating to accounting for funds.

5.4 AVAILABILITY OF NDSL CAPITAL (INSTITUTIONS)

5.4.1 OVERVIEW

Definition

Availability of NDSL capital is the dollar amount or percentage of institutional NDSL loan funds that are depleted due to defaults and deferments, and that are increased due to repayments and reimbursements for cancellations, that can be attributed to delivery system activities, rather than to features of the program or to environmental variables.

Note: Availability of loan capital is not considered as an effect of the GSL delivery system since, in the case of GSL, this effect is an outcome of economic factors such as the rate of return on alternative investments, of lender policy decisions related to the desire to serve the community, and the effect "Rate of Return" on GSL loans. With the exception of the rate of return on GSL loans, these factors are beyond the control of the Federal student aid programs and delivery systems.

Summary

For a given year, the availability of NDSL loan capital at a given institution will depend upon the following factors:

- Carryover of funds from the prior year (including repayments received too late to relend);
- Plus repayments of principal and interest received early enough in the award year to relend;
- Plus new Federal Capital Contribution (FCC);
- Plus matching institutional contribution (1/9 of FCC);
- Plus Federal reimbursement of amounts cancelled from the prior year;
- Plus any other earnings of the fund (primarily interest paid on fund balance);
- Minus any administrative cost allowances taken from the fund;
- Minus any costs of litigation;

- Minus other collection costs;
- Which in total equal the amount available for new loans.

Only to the extent that an institution received its FCC allocation on a timely basis, and the extent to which its loan collection activities maximize the amount of repayments received in time to relend, is the availability of NDSL capital affected by the delivery system.

More than for most Federal aid programs, at least limited planning and even awarding can be done in advance of the actual allocation letter for NDSL. This feature is due to the fact that many institutions secure more than half of their total NDSL level of lending from repayments of principal and interest. This source of funds tends to have been more predictable in recent years than the amount and timing of the FCC. Many schools that have been in the program for a long period of time are less concerned about the level of FCC because so much of their capital comes from repayments. However, the timing of these repayments is critical, since they must be received early enough to be lended, or the school must be willing to run a deficit until the repayments are received.

Obviously, the level of defaulted loans, and loans that are partially or fully cancelled can impact repayment levels, and, consequently, the availability of NDSL capital. There is little that the institution or any other participant in the delivery system can do to affect the cancellation and deferment rates, since students are allowed these options by the features of the programs. Repayment, however, can be managed. Data from OSFA, which is the most recent analysis available, show that NDSL collections are gradually improving. The national default rate is expected to be about 10.5 percent when final June 30, 1982, FISAP reports are fully tabulated. While much of the improvement in the rate is the result of schools being able to refer and assign defaulted notes to ED, there is ample evidence that institutions as a whole are getting better results from their collection efforts, even in a depressed economy.

Additional discussion of institutional fund control issues is provided in section 5.3.

5.4.2 FINDINGS

Fiscal Operations Report and Application to Participate

Data regarding the availability of NDSL loan capital were extracted from the FISAP data file for school years 1979-80 and 1980-81. All data presented here represent institutional averages (means) derived from the FISAP national totals (as reported on ED Form 646-1).

Presented in Figure 5.4-1 are the mean annual dollar amounts of NDSL funds advanced to students, the amount collected through borrower principal and interest payments, the amount received through Federal Capital Contributions (FCC) to institutions, and the amount retained by institutions to cover the administrative cost allowance (ACA) for NDSL. Also provided are the percentages of total loans advanced represented by each of the funds' additional categories and the ACA.

In 1979-80, principal and interest repayments equaled about 55 per cent of the total amount of the loans advanced among participating institutions, and the FCC equaled 43.5 percent. The proportion of annual loan advances funded through repayments rose to nearly 57 percent during 1980-81, and the FCC dropped to just under 40 percent. The percentage of funds retained by institutions for the ACA rose from 3.8 percent in 1979-80 to 5.1 percent in 1980-81.

Presented in Figure 5.4-2 are data on the mean cumulative reductions in available NDSL capital among participating institutions resulting from loan defaults and cancellations. The cumulative figures shown are for the period from the inception of the NDSL program at participating institutions through June 30 of the award year cited.

As shown in Figure 5.4-2 reductions in available loan capital due to cancellations during the two award years cited far outpaced reductions due to defaults ($141,000 vs. $39,000 through June 30, 1980, and $153,000 vs. $53,000 through June 30, 1981). Total cumulative reductions in available loan capital due to defaults and cancellations combined equaled about 9 percent of total cumulative loan funds (rather than loan funds actually in repayment status) advanced as of the last day of both award years shown.

FIGURE 5.4-1

MEAN ANNUAL DOLLAR AMOUNTS FOR INSTITUTIONAL NDSL FUNDS ADVANCED TO STUDENTS AND COLLECTED THROUGH STUDENT PAYMENTS AND FEDERAL CAPITAL CONTRIBUTIONS BY INSTITUTIONS: 1979-80 AND 1980-81

	Award Year	
	1979-80	1980-81
Loans advanced to NDSL students from the loan fund during the award year	$194,990	$210,043
Total principal and interest repaid by borrowers from all sources during the award year	107,768	119,590
- Repayments as a percent of loans advanced	55.3%	56.9%
Federal capital contribution (FCC) deposited in the loan fund during the award year	84,955	83,505
- FCC as a percent of loans advanced	43.5%	39.8%
Total amount added to loan fund during the award year	192,723	203,095
- Total additions as a percent of loans advanced	98.8%	96.7%
Administrative cost allowance (ACA) deducted from loan fund during the award year	7,469	10,693
- ACA as a percent of loans advanced	3.8%	5.1%

Source: FISAP.

FIGURE 5.4-2

MEAN CUMULATIVE[1] REDUCTIONS IN AVAILABLE NDSL LOAN CAPITAL BECAUSE OF LOAN CANCELLATIONS AND LOAN DEFAULTS AS OF THE LAST DAY OF THE AWARD YEAR: 1979-80 AND 1980-81

	Award Year	
	1979-80	1980-81
Loan principal cancelled on loans made prior to July 1, 1972	$124,272	$132,251
Loan principal cancelled on loans made July 1, 1972 and after	16,385	20,358
Total loan principal cancelled	$140,657	$152,609
Defaulted loan principal assigned to and receipted by the federal government	$ 38,740	$ 53,467
Total loan principal cancelled/defaulted	$179,397	$206,076
Total funds advanced to students	$2,269,379	$1,986,699
Amount of loans cancelled/defaulted as a percent of total loans advanced	9.0%	9.0%

[1] Cumulative total since the inception of the NDSL program at the institution through June 30 of the award year.

Source: FISAP.

The data presented in Figure 5.4-2 regarding reductions in the availability of NDSL loan capital due to cancellations and defaults should be treated cautiously for a number of reasons. First, the figure given for the amount of loans cancelled or defaulted as a percent of total cumulative funds advanced does not constitute an actual default or cancellation rate. This is true because a portion of the cumulative total loan funds advanced to students have not yet entered repayment status. Also, since the data represent cumulative, and not annual, totals for the two award years shown, the data do not indicate cross-year trends and any such comparisons would be invalid. In addition, the figures provided represent mean totals across all school types, and do not adequately portray major differences in institutional and student body characteristics that may contribute to the rates of loan cancellation and default.

"A Study of Program Management Procedures in the Basic Grant and Campus-Based Programs (SISFAP)," Applied Management Sciences, Inc.,
U.S. Department of Education, May, 1980.

This study examined NDSL default rates as one indication of the effectiveness of institutional program management procedures in administering student aid. For the purpose of the analysis, default rates were defined as the amount of NDSL funds currently in default divided by the amount of NDSL funds currently in repayment status (excluding funds loaned to students currently enrolled, still in the grace period, or for whom the debt had been cancelled or deferred). This definition of default rate yields a much more accurate appraisal of the reduction in NDSL funds available due to default than can be provided by the data presented in Figure 5.4-2 above.

Presented in Figure 5.4-3 are the NDSL default rates found among different types of institutions during the 1978-79 award year, as reported in the SISFAP institution questionnaire. The data provided in Figure 5.4-3 should be qualified, as it represents institutionally reported data on a relatively small number of schools of each type and control. However, it is not appreciably different (it appears to be slightly understated) than ED data for the same year. The ability to refer or assign loans to ED, and the definition of NDSL defaults, has changed since the period for which this data was collected.

FIGURE 5.4-3

NDSL DEFAULT RATES IN PERCENTAGES, BY INSTITUTIONAL LEVEL AND CONTROL: ACADEMIC YEAR 1978-79

	Institutional Level and Control				
Default Rate	Four-Year Public	Four-Year Private	Two-Year Public	Two-Year Private	Proprietary
Percent of NDSL loan funds in repayment status, defaulted	14.8	17.0	34.4	18.4	27.2
Schools reporting (N = 119)	43	50	17	7	2

Source: SISFAP.

"Status of NDSL Defaults," Office of Student Financial Assistance, Division of Policy and Program Development, Campus-Based Branch, April 1983.

The most current NDSL default data available are those developed by OSFA in April of 1983. A summary table for the years ending June 30, 1978 through 1982, is shown in Figure 5.4-4. These data show a significant decline in the institutional default rate, much, but not all, of which is attributable to the implementation of a policy allowing defaulted loan "referrals" and "assignments" to the Department of Education for further collection activity.

For the 1977-78 academic year, the last year prior to providing institutions the opportunity to transfer "bad paper" to ED, the national default rate was 17.37 percent. The following year, after institutions had a chance to dispose of their aged defaults, the figure dropped to 11.90. However, even including the paper held by ED, the average default rate was down to 16.04 percent. Caution should be exercised in comparing these figures, since there have been changes in the definition of defaults. Preliminary (partially edited) data for 1981-82 suggest that those percentages have further dropped to 10.43 for paper at the institution, and 15.05 when ED-held paper is also considered. Thus, school collection effectiveness has improved each year, perhaps in part due to further assignments to ED, but more importantly, ED's efforts appear to be paying off as well, such that the potential loss rate has also continued to drop.

5.4.3 EFFECT BY ACTIVITY

The NDSL program is administered under the Campus-Based component of the Title IV delivery system.

Campus-Based Component

Account Reconciliation Subsystem

Four activities within the account reconciliation subsystem for Campus-Based programs determine the magnitude of the availability of NDSL loan capital. They are:

(1) NDSL repayments: loan capital made available to the program by students through repayments of their loans;

FIGURE 5.4-4

STATUS OF NDSL DEFAULTS

	Rate	Borrowers	Principal Amount Outstanding	Matured Principal
June 30, 1982*				
Default	10.43%	726,201	671,161,602	6,434,522,191
Potential Loss	15.05%	1,129,586	968,837,338	6,434,522,191
June 30, 1981				
Default	11.09%	707,925	640,737,248	5,774,598,868
Potential Loss	15.37%	999,414	887,964,781	5,774,598,868
June 30, 1980				
Default	11.88%	794,554	608,147,183	5,120,709,575
Potential Loss	16.10%	1,057,899	824,495,199	5,120,709,575
June 30, 1979				
Default	11.90%	780,648	542,880,134	4,562,311,490
Potential Loss	16.04%	875,459	731,742,500	4,562,311,490
June 30, 1978				
Default	17.37%	841,181	702,542,830	4,044,357,712

*Data as of June 30, 1982 are preliminary and partially edited.

Default Rate - is computed using only those loans in the institution's loan portfolio.

$$\text{Default Rate} = \frac{\text{Principal amount outstanding on loans in default}}{\text{Matured Loans}}$$

Matured Loans - the total principal amount of all loans made minus the principal amount of loans to borrowers who are -

(a) enrolled as at least half-time students in institutions of higher education, or
(b) still in their first grace period.

Potential Loss Rate - is computed using not only the loans in the institution's loan portfolio, but also the loans that institutions assigned to the U.S. as of June 30, and loans that it referred for collection and that were receipted by the U.S.

Source: OSFA, April, 1983.

(2) Repayment deferment: or rate at which students are granted deferments on the repayment of their loans;

(3) Loan cancellations: the rate at which loans are cancelled due to the student's death, disability, bankruptcy, service in the military or as a teacher, or other reason; and

(4) Loan defaults: loans for which students fail to make required payments as scheduled.

See the Findings section above for data on the contributions of these activities to loan capital availability.

5.5 PROCESSING TIME (INSTITUTIONS)

5.5.1 OVERVIEW

Definition

Processing time is the total elapsed time between the receipt of an application by the school and the resultant disbursement of the initial amount of grant, loan or subsidy funds. It measures both the time spent on specific processing activities, and periods when the application is being held, e.g., for additional information or for a notification or disbursement date to be reached. This effect is of particular importance because of the student's need to have funds in hand prior to when the related expenditures are due, and to know how much aid will be received prior to choosing a school to attend.

Processing time is identical to turnaround time for applicants/families, excluding the time required for the application to reach the institution, and the time required for funds to reach the student. See also 7.3 for information on this effect.

Summary

It was difficult to obtain accurate data on the processing time required by institutions for many of the delivery system activities because schools vary greatly in the policies and procedures they employ. Rolling vs. non-rolling notification, backlogs during peak processing times, and joint application for Pell and Campus-Based funds can also affect processing time. Based on site visits, ED estimates, and SISFAP information, the following rough estimates were generated:

- Pell — almost all schools stated that less than four weeks elapsed between the time the student submitted the SAR and the time they received their award notification unless validation problems were experienced or extensive corrections are needed.
- Campus-Based — in general, one to four weeks to process an application, on average, once the need analysis data is received.
- GSL — between two days and four weeks to complete enrollment certification and need determination, except during peak processing times.

5.5.2 FINDINGS

Little summary data exist to indicate the institutional processing time that is required for various delivery system activities. What data that is available is presented below. It should be noted that processing time is dependent on a number of variables, such as institutional procedures, the degree of institutional automation, the time of year when the application is received, and the ability of the applicant to accurately fill out the application, that vary greatly across schools. Delays in Federal decisionmaking can also affect turnaround time.

"A Study of Program Management Procedures in the Campus-Based and Basic Grants Programs (SISFAP)," Applied Management Sciences, Inc., U.S. Department of Education, 1980.

SISFAP consisted of a series of questionnaires and other data collection efforts, conducted in 1978-79 and followed up in 1979-80, designed to provide information on the provision of student financial aid. Of interest in analyzing processing time for institutions are responses from the institutional questionnaire, which included a sample of 179 postsecondary institutions.

One aspect of processing time for the institution in the Pell program is the time elapsed between the submission of the SAR and the students' notification of their award amount. The institution questionnnaire specifically asked this question. Results are shown in Figure 5.5-1.

The majority of institutions stated that one week after receipt of the SAR the student was notified of his or her award amount. Over 90 percent of institutions processed the SARs in less than four weeks, with only few of schools reporting processing times of over four weeks. Processing times seemed relatively consistent among institution types, but two-year public schools did seem to take longer, on average, than other types of schools. However, these data were collected prior to the expansion of institutional validation responsibilities and probably are accurate today only for non-validated cases, if at all.

FIGURE 5.5-1

NUMBER OF WEEKS BETWEEN THE SUBMISSION OF THE SAR AND STUDENT NOTIFICATION OF THEIR AWARD AMOUNT BY TYPE OF INSTITUTION (1978-1979)

	Four-Year Public	Four-Year Private	Two-Year Public	Two-Year Private	Proprietary	Total
1 Week	51%	59%	50%	67%	64%	57%
2-4 Weeks	42%	33%	35%	22%	36%	36%
5-9 Weeks	2%	6%	8%	0%	0%	4%
8-10 Weeks	2%	0%	8%	0%	0%	2%
Over 10 Weeks	2%	2%	0%	0%	0%	2%

Source: SISFAP Institution Questionnaire.

While there are little data available on the actual time required by institutions to complete the various activities required of them in the delivery system, there are data from the institution questionnaire on the procedures used by institutions to accomplish various tasks. These procedures can be thought of as intervening variables affecting the relationship between the activities required under the delivery system and the time institutions need to accomplisn these activities.

Figure 5.5-2 presents institutional responses to questions concerning the use of computers in the delivery of financial aid. The analysis focused on the institutions' use of computers because of their importance in relationship to processing time and the emphasis of some alternative delivery systems on the increased use of technology. Figure 5.5-2 demonstrates that most institutions still relied heavily on manual procedures for their financial aid operations in 1978-1979. In addition, the use of computers is stratified by institution type; four-year public schools using them most frequently, four-year private schools second, two-year public schools third, and two-year private and proprietary schools least, suggesting that the latter assume that a certain minumum enrollment level and/or budget is necessary before computers can be used in an efficient, cost-effective manner for administration.

Site Visits

Site visits were made to institutions using at least four different versions of student aid application forms: the Pennsylvania Higher Education Assistance Authority (PHEAA) form, the Financial Aid (CSS) form, the Student Aid Application of California (CSS), the Family Financial Statement (ACT), and the Application for Federal Student Assistance (the Federal form). The processing time at the institutions visited varied considerably, depending upon the application form(s) and procedures used.

The site visits included three institutions that used the Student Aid Application of California, which is processed by the College Scholarship Service. Two of these institutions begin their processing after they receive the output document (FAFNAR) from CSS, and one processes the application internally. The processing time for the application by CSS usually takes over four weeks. Sacramento City College, which processes the application itself (at the Los Rio District Office), requires a two-day turnaround for application processing.

FIGURE 5.5-2

THE PERCENTAGE OF INSTITUTIONS EMPLOYING VARIOUS PROCEDURES FOR ADMINISTERING FINANCIAL AID BY TYPE OF INSTITUTION (1978-1979)

Institution Procedures	Four-Year Public	Four-Year Private	Two-Year Public	Two-Year Private	Proprietary
Use computers to assist in FISAP preparation	23%	16%	11%	11%	0%
Use computer to assist in Pell Report preparation	12%	3%	0%	0%	0%
System used to keep records:					
Fully Computerized	10%	2%	0%	0%	0%
Partly Computerized	66%	47%	43%	0%	6%
Completely Manual	26%	55%	57%	100%	90%
Microfiche/Microfilm	12%	0%	7%	0%	3%
Department "hard copy"	58%	31%	23%	0%	10%
Central location "hard copy"	22%	12%	10%	20%	13%
Other "hard copy" files	6%	8%	3%	0%	10%
For schools using computers, the purpose used for:					
packaging aid	20%	2%	7%	0%	0%
recordkeeping	72%	57%	40%	10%	10%
Report Preparation	72%	41%	47%	10%	7%
Method for packaging aid:					
Fully Computerized	0%	0%	0%	0%	0%
Fully Manual	80%	98%	96%	89%	100%
Combination	20%	2%	4%	11%	0%

Source: [illegible] SFA [illegible] stit [illegible] n Q [illegible] ionr [illegible]

The actual processing time at the institution varies according to the institutional schedule and the decisions the institution makes in reaction to the Federal schedule. For example, Sacramento City College (SCC) requires new students to submit their aid application between April 15 and July 1. These students are notified in September, after a three-month time period. If a student applies in September, it would take four to six weeks to process the application. At SCC, the processing system is automated, except for the actual packaging of the award; the internal system calculates the student aid eligibility. The aid officer then packages the aid for all programs, including Pell and GSL. If students have applied for these latter funds, which involve a separate process, processing could take several weeks.

Two of the institutions included in the site visits, City Colleges of Chicago (CCC) and Western Business College, ran their entire student aid delivery system off the SAR from the Federal Pell central processor. Once the SAR is received at CCC, the processing time is ten days to two weeks. CCC plans to drive its system from the SAR tapes during the 1983-84 cycle, which should further reduce processing time. At Western Business College, the processing is done throughout the year, as students enter the system every six weeks. Processing time varies according to the volume of applications, and the number of applications being validated. When the Pell system was selecting 100 percent of applicants for validation during the first part of the previous delivery cycle, processing time was delayed. Firm time estimates were not available at either insititution.

The University of Florida, which uses the CSS Financial Aid Form exclusively, was able to package awards and issue award letters one month before the beginning of the term for the 1982-83 academic year. Financial aid administrators at the University noted that the late decisions, validation requirements, lack of timely Pell application processing, and SAR corrections turnaround time added significantly to their institutional processing time:

- The government's decision to drop all but the first choice institution from tape exchange delayed some students' data from getting into the University of Florida system for up to six weeks. The student had to submit a correction SAR to have data transmitted.

- It is not uncommon to have six to seven revisions in a student's file--all dictated by the central processor. Each revision averages approximately two to three weeks in processing time.

- Two thousand University of Florida students (out of a total of 33,000) were discouraged last year from seeking a Pell Grant (i.e., 2000 SARs were never revised to be acceptable). Five hundred students are still submitting corrections/additions to receive a grant.

Any general assessment of the processing time required by institutions to complete all the activities necessary prior to the actual disbursement of funds to students is limited by the following factors:

- There is tremendous variation among institutions in the methods used to process financial aid applications, calculate awards, validate student information, notify students of awards, etc. This variation results both from technical differences (e.g., automated vs. manual procedures) and from different management philosophies (e.g., maximum vs. minimum validation of student information).

- In addition to the variation among institutions, the processing time also varies among individual student applicants at the same institution. These differences will be determined by factors such as the accuracy and completeness of the application, the location of the student in relationship to the institution, and the time of year the application is submitted.

- The speed with which applications are processed by the central processor, lenders, and other organizations external to the institution is a major determinant of total processing time. Less critical factors which contribute to total processing time for institutions include the timeliness of mail delivery and the verification of prior grant or loan data from other institutions attended by the applicant.

Unfortunately, data on these issues is generally not available.

5.5.3 EFFECT BY ACTIVITY

Little summary data exist to indicate institutional processing time for particular delivery system activities. Processing time estimates were obtained for certain stages of the institution's involvement in the delivery system from the site visits. These estimates are reported below for each relevant subsystem. While the site visit participants probably do not constitute a statistically valid sample which can be generalized to the population of all institutions, they do provide general impressions of the processing times commonly required for various delivery system activities.

Institutional processing time for a specific application is generally dependent upon the outcomes of each activity in the delivery system (e.g., whether discrepancies are found during validation). Also, processing time can be greatly increased by other factors such as backlogs during peak periods, and can be affected by adherence to a common notification date. A recent change in the contractor for Pell central processing is also expected to decrease turnaround time at the processor.

Pell Grant Component

Pre-Application Subsystem

The timing of Federal decisions and activities can have a significant effect on institutional processing time. For example, delays in the determination of the Pell Grant Payment Schedule have caused institutions to delay determining and disbursing Pell awards even though students have submitted acceptable SARs for institutional processing.

Student Application, Eligibility Determination, and Benefit Calculation Subsystems

During site visits, it was noted that students frequently do not submit their SARs to the school in a timely manner. Upon receipt of the SAR by the institution, eligibility can usually be determined quickly by inspection of the SAR and institutional data, after the relevant documentation has been collected. If corrections are needed, time is required for the student to submit the corrections; this time ranges from "negligible," to one to two weeks if the student must request and receive information from his family in a distant location. Once corrections are submitted, turnaround time requires about four weeks; up to one week for transmittal of the correction to the processor, about 17 days at the processor (during peak periods), and up to one week for transmittal of the SAR to the student and from the student to the school. If errors remain, this process must be repeated.

The returned SAR may tell the student that he or she has been selected for validation. Under a "best case scenario" described by financial aid administrators, the student being validated will require as many as seven to ten days to gather the necessary documentation and deliver it and the SAR to the Financial Aid Office (FAO). Depending on backlogs at the FAO, validation will require an average of two weeks, at which time the award amount can be finalized and the student notified. Based on interviews during site visits, FAO validation greatly exceeded two weeks at many institutions during 1982 because ED validation instructions were disseminated well into the processing cycle. Assuming timely dissemination in 1983, the two-week standard for "clean" SARs should be achievable.

According to inteview data, actual award calculations by the FAO require no more than 20 minutes under the Regular Disbursement System (RDS). However, because of FAO backlogs and, in many cases, the need to type an award letter, turnaround time to the student will be perceived as 10 to 15 days; seven to ten days within the FAO plus three to five days for transmittal. If the SAR arrived prior to notification about Campus-Based awards, many schools will hold the Pell notification and include it with the Campus-Based decision, which could, depending upon the time of year, add several weeks to the processing time as perceived by the student. Data from the SISFAP Institution Questionnaire show that 57 percent of institutions required less than one week from the date of submission of the completed SAR until students are notified of their award amount; 90 percent of schools required less than four weeks for this activity. However, this was prior to the implementation of widespread validation.

According to interview data, institutional certification of enrollment status (Form 304, Part B) for students receiving Pell Grants through the Alternate Disbursement System (ADS) will average one week. Allowing one week for transmittal of the completed Form 304 to ED, about 25 days for ED processing at peak periods, and one week for transmittal of the award from ED to the student, the entire ADS process will require seven to eight weeks.

Funds Disbursement Subsystem

Within the RDS, when SARs are presented to the institution before registration, every effort is made to disburse funds at registration at most schools. Therefore, elapsed time will depend on how long before registration the SAR is submitted. When the SAR is not presented before registration, disbursement requires a minimum of two to three weeks at most institutions. Under ADS, the award is disbursed by ED simultaneously with the award notification.

GSL Component

Pre-Application Subsystem

Refer to the Pre-Application Subsystem section for the Pell Grant component for a discussion of the effects of Federal decisions and activities upon institutional processing time.

Student Application, Eligibility Determination, and Benefit Calculation Subsystems

Institutional certification of enrollment, calculation of the AGI, determination of need, and calculation of the loan amount for GSL ranges from a minumum of two to three days up to three to four weeks, depending upon whether the applicant's AGI requires that need analysis be performed, and if so, whether the necessary financial data has already been processed for Campus-Based consideration. Institutional procedures (i.e., whether non-Campus-Based applicants are required to submit need analysis forms or GSL tables are used); and processing backlogs will also affect processing time. At peak processing times, these activities can require up to two months. Other components of GSL processing time depend on the practices of the lender and guarantee agency.

Campus-Based Component

Pre-Application Subsystem

Refer to this subsystem for the Pell Grant component.

Student Application, Eligibility Determination, and Benefit Calculation Subsystems

The time required for application processing by the institution depends on the extent to which the applications are examined, and on the form of the notification to the student. It is also dependent on the extent to which the school utilizes need analysis services or Pell data. According to aid administrators, campus processing of the applications requires about one week from the time when an application is received, if no special examination or validation is performed. Processing time can be as high as three to four weeks if the applications are rigorously reviewed, including time for follow-up with the applicant.

However, the applicant may not be immediately notified of his or her award. Some institutions adhere to a mid-April "common notification date," in which applications are processed and notifications are accumulated between early January and mid-April, when all award offers are distributed. Elapsed time under this procedure may be as long as 14 weeks. Other institutions review applications and send award notices on a "rolling" basis, with a resultant processing time of two to four weeks from receipt of a completed application.

If validation takes place and the institution routinely requests documentation with the application, validation can occur concurrently with award calculation. If documentation is requested only as needed, each request will add about two to three more weeks to the process.

Funds Disbursement Subsystem

Interview data suggest that an average of ten days elapses between the date the institution mails notification of the award amounts and the date when the institution receives the signed acceptance letter from the student, triggering disbursement authorization. Institutional policy on disbursement dates is a major factor in determining processing time. Most institutions disburse (or credit to student's account) both SEOG and NDSL funds at registration. Therefore, processing time for SEOG and NDSL disbursement varies, depending upon the date the acceptance of Campus-Based funds is received and the relationship of that date to registration. CW-S funds are disbursed as earned. The first check normally is received three to five weeks after the student begins work, depending on whether the institution is on a bi-weekly or monthly payroll system.

5.6 AVAILABILITY OF INFORMATION (INSTITUTIONS)

5.6.1 OVERVIEW

Definition

Availability of information refers to the ability of the delivery system to generate the information needed by postsecondary institutions. This effect includes information on program features as well as on delivery system procedures. It also includes information that is needed as an input to the delivery system, such as the Student Aid Report from the central processor.

Summary

Judging from comments at the ED regional hearings and from site visits, the availability of information is probably the most important aspect of the delivery system which affects institutions. In general, institutions emphasized the need for greater stability and consistency in Federal regulations and earlier finalization of related decisions. Institutions feel very strongly that they can deal with changes in the programs as long as they have enough advance warning. It is the tremendous degree of uncertainty regarding funding levels, and program regulations and requirements, that makes it almost impossible for institutions, and consequently students, to adequately plan for the future. Financial aid administrators do also rely heavily upon the current Federal information dissemination and training activities.

5.6.2 FINDINGS

Availability of information, as it relates to the needs of institutions, is analyzed in a mostly qualitative fashion, although some quantative data relating to Federal training and information dissemination efforts are available. This data is primarily based on the perceptions of participants, and is affected by their ability to collect, assimilate and understand the relevant information.

"A Study of Program Management Procedures in the Campus-Based and Basic Grant Programs (SISFAP)," Applied Management Sciences, Inc., U.S. Department of Education, 1980.

SISFAP consisted of a series of questionnaires and other data collection efforts, first conducted in 1978-79 and followed-up in 1979-80, designed to provide information on the provision of financial aid. Of interest in analyzing the availability of program information are responses from the institution questionnaire, which represents a sample of 175 postsecondary institutions.

The institution questionnaire asked financial aid administrators which of several sources of information were important means of keeping abreast of the changes in financial aid programs administered by the Department of Education. The responses shown in Figure 5.6-1 indicate which methods of communication are most important in providing information to financial aid administrators.

"Quality in the Basic Grant Delivery System, Stage One," Advanced Technology, Inc. and Westat, Inc., U.S. Department of Education, 1982.

As part of this quality control (QC) study, data were collected from institutions on the percentage of financial aid staff attending OSFA's training program sessions in 1980-81. For the 301 institutions responding, the mean reported was 72 percent, indicating that most persons involved in financial aid management did attend the training sessions. Financial aid administrators who commented on this data noted that it is not uncommon for these trainees to then train other employees at their school. When the percentage of persons at an institution attending training was included as an explanatory variable in a regression equation attempting to predict institution error in application processing, it was not significant, indicating that no positive relationship between training and reduced error rates could be determined, at least from the QC data.

"Evaluation of the Student Financial Assistance Training Program," Advanced Technology, Inc., U.S. Department of Education, 1981.

This study, conducted in 1980-81, evaluated the Student Financial Aid Training Program (SFATP). The major findings were that the program was almost uniformly well-received by those attending, although learning, as measured by test score improvement from beginning to end of the workshop, was minimal.

Public Hearings

At the institutional level, financial aid administrators, fiscal officers, and other on-campus staff are in the best position to assess and comment on the adequacy of the current delivery system in terms of providing needed program information. Presented below are comments and perceptions of institutional staff

FIGURE 5.6-1

PERCENTAGE OF INSTITUTIONS CONSIDERING SOURCE OF INFORMATION IMPORTANT IN KEEPING ABREAST OF FINANCIAL AID PROGRAMS (BY TYPE OF INSTITUTION) (1978-1979)

Source of Information	Four-Year Public	Four-Year Private	Two-Year Public	Two-Year Private	Proprietary
Federal Register	96%	92%	100%	100%	87%
OSFA newsletters	98%	92%	87%	100%	74%
"Dear Colleague" letters	80%	86%	77%	90%	87%
Training manuals	86%	82%	63%	100%	87%
Handbooks	86%	90%	87%	100%	97%

Source: SISFAP Institutional Questionnaire.

and financial aid association representatives regarding the adequacy of the current availability of information for Federal student aid programs. The comments cited here were obtained from participants in attendance at recent ED hearings conducted in San Francisco, Chicago, and Atlanta.

As anticipated, most of the comments pertain to the timeliness and consistency of information flowing from the Federal level to the state and institutional levels. Major areas of concern include information on legislative and regulatory actions, funding levels and disbursements, and general program policy decisions. Other concerns relate to the Federal reporting requirements with which participating institutions must comply in order to receive funds.

Chicago Hearing, March 31, 1983.

The most detailed comments pertaining to the availability of information at the Chicago hearing came in a position paper prepared by the Illinois Association of Student Financial Aid Administrators. Listed are summaries of the key concerns discussed in the paper:

- Financial aid officers and applicants have found in the last few years that they are unaware of finalized rules, regulations, and funding allocations until well into the processing cycle.
- The student and family are concerned with the regulations affecting students' eligibility for funding, and thus, their access to preferred institutions. Delays in the flow of program information prevent financial aid officers from providing accurate and timely information to students and families (as required under Federal law). Final regulations are, in some cases, still unsure for the 1983-84 school year and, in all cases, not defined for 1984-85. Families and students must complete forms and submit documents to financial aid offices, yet the offices and the Federal agencies involved are still discussing final regulations.
- Family budget planning for college needs to be long range in nature. Families should be able to count on consistent information regarding need analysis and eligibility determination so that such plans are not undercut. Professional financial aid counselors are not currently able to provide information in support of these goals due to the lack of concrete, timely, and consistent decisions in these areas.
- The new definition of a self-supporting student has not yet been finalized and from the institutional perspective, it is now too late to inform students of a new definition for the 1983-84 school year.
- Until the Higher Education Amendments of 1980, cost of education was broadly defined. Changes in the formulas used to determine this cost

affects students and families presently attending schools, yet the ability to predict each family's projected charges is not presently a service most financial aid offices can provide. The lack of timely and accurate data in this area is a major problem.

- During the 1982-83 academic year, financial aid offices were provided funding figures in late September or early October. It is very hard to provide "concrete" award figures for a year when funding is delayed. Pending legislative amendments during the current cycle result in anticipation of similar problems this year. Solid funding information needs to be made available much earlier in the award cycle.

Selected recommendations forwarded by the Illinois Association of Student Financial Aid Administrators to address the above concerns include:

- Both law and regulation should be approved, ideally, five years in advance of implementation, but no less than 18 months in advance. Statutory provisions should be enacted to ensure adherence to mandatory timeframes.
- Title IV regulations should not be effective until at least July 1 following the calendar year in which they were published as final regulations.
- The approval process for Federal forms, regulations, and reports should be streamlined and made more timely.
- To enhance advanced planning, funding commitments should be known at least 12 months in advance.
- The financial aid environment must be stabilized. Constant and frequent change without adequate lead-time to ensure proper implementation creates a climate that may lead to greater error or abuse.

San Francisco Hearing, April 6, 1983.

Concerns raised at the San Francisco hearings included the following:

- Testimony from the Western Association of Student Financial Aid Administrators stressed the need for improved "stability and dependability" in the policies and regulations governing the administration of financial aid programs. An example of the confusion caused by "irregular" policy and regulatory changes cited at the hearing was the recent move toward requiring institutions to verify the draft registration status of aid applicants prior to awarding any Federal financial assistance. It was noted that, in order to increase confidence in the long-term stability of program design and requirements, institutions "need a guarantee from Congress" to maintain the status of student aid programs.
- Testimony from the Arizona Association of Financial Aid Administration stressed the need for "flexibility and stability." The timing of informa-

tion on formulas for determining student need was said to be "critical." It was also recommended that FISAP and Pell Progress Reports be tied together.

- Testimony from the Assistant Financial Aid Director at the University of California at Davis recommended a 24-month model for the delivery system in order to improve operations and the flow of information. The recommended implementation schedule was:
  - 6 months for start-up;
  - 12 months for delivery;
  - 6 months at the end of the delivery year.

Atlanta Hearing, April 13, 1983.

The comments, concerns, and recommendations forwarded by other institutional representatives at the Atlanta hearings were very similar to those laid out in the position paper from the Illinois Association of Student Financial Aid Administrators. The timing and consistency of Federal regulations, finalization of funding commitments, student need and cost of attendance formulae, and the ability to perform adequate advance planning were critical concerns raised repeatedly during all the hearings.

Salient comments and recommendations presented at the Atlanta hearing include:

- The primary shortcoming of the existing delivery system is the lack of timeliness of Federal decisions and dissemination of information. Federal delays result in institutiional subsidization of Federal programs, in order to distribute aid funds to their students, or to allow students to return without full payment of tuition and fees. Also, such delays force institutions into a compressed time/high production environment which contributes to error.
- Another problem is the inconsistency of information, definitions, forms, and processes from year to year. More complete, standardized program definitions are needed. Regulations affecting program operations should be available one year in advance of the processing year. All forms should be available in January for the following academic year beginning in July/August/September.
- The OSFA training program is very good, but training should be structured to build on prior training, rather than requiring re-education. Lack of assistance in the field is a problem.
- On the institutional level, there is a lack of understanding (outside of the financial aid office) about the magnitude of the financial aid delivery

processes and operations. Without such understanding, institutions do not provide the FAO with adequate support. ED should attempt to educate institutional decision-makers about the importance of these tasks.

Site Visits

The availability of information appears to be an important issue to financial aid administrators. The degree to which the availability of information is a problem appears dependent on the degree of political involvement of the particular FAA. For example, at Chicago City Colleges, the lack of availability of information was raised as a critical issue. Campus and central office FAAs simply did not know about changes in regulations soon enough to make sound decisions about student aid delivery.

At the other extreme, there were campuses, such as Stanford and the California State University System, where the FAAs have been quite active nationally. In these cases, administrators commented that they were aware of Federal decisions as soon as they were made. The major problem was the timing of those decisions. At CSU, the campus FAAs observed that their central office effectively played the role of disseminating information about the regulations and other Federal decisions to the campuses in a timely manner. Involvement in NASFAA and the OSFA training program appears to facilitate the availability of information.

Another issue related to the availability of information was raised during the site visit to the University of Florida. The University has a highly automated financial aid office. The FAAs pointed out that OSFA needs to communicate special information to campuses who use tape exchange in interactions with the Pell central processor and disbursement system. It was noted out that changes made in format requirements can have high cost implications for the campuses. These changes often are not communicated in a timely fashion.

5.6.3 EFFECT BY ACTIVITY

Because availability of information has very similar effects upon institutional administration of all Title IV aid programs, and because data and financial aid administrators' comments are not program-specific, this section presents the findings on availability of information by subsystem for all programs, combining the Pell Grant component, the GSL component, and the Campus-Based component of the delivery system as they pertain to institutions.

Pre-Application Subsystem

This subsystem is the most important determinant of the availability of information because it encompasses both the Federal and institutional information dissemination activities. Institutional financial aid administrators note that the lack of consistency and lack of timely dissemination of information regarding regulations, forms, schedules, procedures, etc., from ED cause major problems in their administration of the programs. This information is frequently received too late to be included in the publications that are distributed to prospective students. Institutions frequently are not adequately forewarned of Federal program and procedural changes that require changes in institutional forms, procedures, and systems. The recurring requirement for institutions to make hurried, last-minute revisions creates undue costs and a high-pressure atmosphere conducive to increased institutional error.

The findings indicate a heavy reliance by institution financial aid administrators upon the information dissemination and training activities of ED. Very high percentages of administrators surveyed, ranging from 77 percent to 100 percent depending upon the type of school and source of information, utilized the Federal Register, OSFA newsletters, "Dear Colleague" letters, training manuals, and handbooks provided by ED. At the same time, FAAs expressed concern about the fragmentation of guidance and direction. Many different publications must be researched to determine the expected action; they are sometimes contradictory and precedent is difficult to ascertain. Also, in an institutional survey, 72 percent of financial aid office staff indicated they attend OSFA training sessions, and believe they are useful.

Representatives of institutions note that the lack of consistency and timeliness in ED's information dissemination have a definite negative impact upon their own financial aid information dissemination efforts. Regulations establishing eligibility criteria, payment schedules, etc., have been delayed by the Federal government at times until well into the processing year. This makes effective institutional counseling and information dissemination to applicants and families nearly impossible.

Student Application, Eligibility Determination, and Benefit Calculation Subsystems

Financial aid administrators again note that Federal inconsistencies and delays in information dissemination negatively affect their various responsibilities in these subsystems for all three program components. Specifically noted as problems are the following:

- Delays in the determination and dissemination of eligibility and need criteria, payment schedules, and funding levels until after the processing year has begun.
- Variations from year to year in regulations, ED forms, procedures, and systems which require institutional changes, often at the very last minute.
- The complexity (both in content and format) of the Pell Grant Payment Schedule.

These problems often cause institutions to make errors in eligibility and award determination, and have required some institutions either to delay awarding aid until after it is needed by the student or to subsidize the Federal aid program with its own funds (especially in the Pell Grant program) until information availability problems are resolved.

Funds Disbursement Subsystem

Institutional representatives did not relate information availability specifically to the activities in this subsystem for the various program components, except to note that delays and inaccuracies in information dissemination by ED ultimately result in delays and inaccuracies in disbursing funds to the recipients.

Account Reconciliation Subsystem

Concern was voiced by institutional financial aid administrators about the proliferation and complexity of reporting forms and accompanying instructions required by ED to reconcile the program accounts. The administrators also noted that there is no single source of help at ED for completing reports and forms, and that very often whatever information ED provides is incomplete, inconsistent with other sources, and/or inaccurate.

Complaints were also expressed about the lack of informational feedback institutions receive from the voluminous data they are required to submit to ED. It is not clear to them whether ED actually utilizes the data it collects. Several representatives recommended elimination of some institutional reporting requirements and consolidation of others across programs.

5.7 DISTRIBUTION OF AID (INSTITUTIONS)

5.7.1 OVERVIEW

Definition

As it is normally used, distribution of aid is primarily an outcome of decisions relating to the programs rather than to the delivery system; however, the delivery system does have a marginal impact on this effect. As used in this model, distribution of aid refers to the impact the delivery system has on the amount and type of aid students receive, grouping students by socioeconomic status and type of school attended. The delivery system affects distribution primarily by allowing various participant groups to make discretionary decisions. For example, an institution may use any of a variety of methods of aid packaging, choose to make transfers between SEOG or CW-S, or choose how to reconcile Campus-Based over-or under-payments. Distribution of aid is also a secondary effect of many of the other delivery system effects, such as miscalculation/error. However, as used in this model, distribution of aid does not include the impact of these other effects because the model is focused on primary, rather than secondary, effects.

Summary

The distribution of aid effect for institutions pertains primarily to the Campus-Based programs because only in these programs are discretionary awarding decisions made at the institutional level. Data from the 1979-80 and 1980-81 FISAP indicate that there is a great deal of variance in the distribution of aid, both in terms of the percentage of need funded through the programs and the percentage of eligible applicants who become recipients for each program. This variance was found in comparisons across types of schools as well as within a given school type.

5.7.2 FINDINGS

Fiscal Operations Report and Application to Participate

Two analyses of the distribution of aid for institutions were performed using data from FISAP. The analyses of this effect for institutions pertain only to the Campus-Based programs (SEOG, NDSL and CW-S), because it is only in the Campus-Based programs that institutions are allowed some discretion in packaging awards. The first analytic measure is Federal funding received as a proportion of total funds needed by the various types of institutions. It should be noted that these funding levels are driven by program criteria, not by the operation of the delivery system. Need is determined by Federal formula, and incorporates expected family contribution, other aid, and cost of attendance. Mean proportions and standard deviations for this measure, broken down by program and type of institution, are presented for the years 1979-80 and 1980-81 in Figure 5.7-1. The data indicate that little difference exists among the four- and two-year public/private colleges in terms of proportion of need met by funds received. Proprietary institutions, however, had considerably higher proportions of their students' needs met through the SEOG and NDSL programs. The lower proportion among the proprietaries for CW-S reflects the regulations against on-campus employment at proprietary schools for this program. The relatively high standard deviations imply that there is a great deal of variance among schools of the same type in the percentage of need met with Federal funds.

Presented in Figures 5.7-2, 5.7-3, and 5.7-4 on the following pages are the distributions of institutions according to the proportion of total need met with Federal funds, for the SEOG, NDSL, and CW-S programs respectively. The data are broken down by type of institution for the years 1979-80 and 1980-81.

Figure 5.7-2 indicates that over four-fifths of all institutions received less than 26 percent of their total self-determined funding need through SEOG. Proprietary schools were more likely to receive higher percentages of their need through SEOG than the other types of schools. Also, there was a significant movement of all school types during 1980-81 between the 1 to 25 percent category and the 26 to 50 percent category, indicating increased utilization of SEOG funds during that school year.

Note that in Figure 5.7-3, schools receiving zero percent of their needs through NDSL were broken out as a separate category due to their relatively large numbers. The distribution for those schools receiving at least some NDSL funds shows that the vast majority of participating schools receive less than 26 percent of their "perceived to be needed" funds through this program.

FIGURE 5.7-1

FEDERAL FUNDING AS A MEAN PERCENTAGE OF INSTITUTIONAL NEED,[1] BY PROGRAM AND BY TYPE OF INSTITUTION: 1979-80, 1980-81 (STANDARD DEVIATION IN PARENTHESES)

Institution Type	SEOG	NDSL	CW-S
1979-90			
Four-Year Public	11% (10)	5% (08)	19% (12)
Four-Year Private	12% (11)	4% (06)	17% (13)
Two-Year Public	10% (12)	3% (10)	19% (13)
Two-Year Private	12% (12)	6% (13)	17% (14)
Proprietary	19% (21)	17% (21)	10% (15)
Total/Mean	14% (16)	9% (15)	18% (14)
1980-81			
Four-Year Public	15% (14)	5% (08)	17% (12)
Four-Year Private	13% (12)	5% (07)	15% (13)
Two-Year Public	12% (13)	2% (06)	17% (13)
Two-Year Private	15% (14)	7% (10)	15% (14)
Proprietary	23% (23)	14% (20)	12% (13)
Total/Mean	16% (17)	8% (13)	15% (13)

Source: FISAP.

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[1] For the purposes of this chart, "need" is determined by the institution, based upon the applications reviewed during the previous year.

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FIGURE 5.7-2

FUNDING AS A PERCENTAGE OF NEED[1] BY INSTITUTION TYPE FOR THE SEOG PROGRAM: 1979-80, 1980-81

	0-25%		26-50%		51-75%		76-100%	
Institution Type	N	%	N	%	N	%	N	%
1979-80								
Four-Year Public	442	93%	28	6%	5	1%	1	0%
Four-Year Private	889	92%	60	6%	8	1%	7	1%
Two-Year Public	657	93%	39	5%	8	1%	5	1%
Two-Year Private	175	92%	11	6%	3	2%	2	1%
Proprietary	985	75%	203	16%	55	4%	61	5%
Total/Mean	3,148	86%	341	9%	79	2%	76	2%
1980-81								
Four-Year Public	418	86%	50	10%	11	2%	6	1%
Four-Year Private	935	89%	87	8%	23	2%	4	1%
Two-Year Public	622	87%	72	10%	14	2%	4	1%
Two-Year Private	195	86%	24	11%	5	2%	4	1%
Proprietary	745	67%	214	19%	89	8%	59	5%
Total/Mean	2,915	81%	447	12%	142	4%	77	2%

Source: FISAP.

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[1] For the purposes of this chart, "need" is determined by the institution, based upon the applications reviewed during the previous year.

FIGURE 5.7-3

FUNDING AS A PERCENTAGE OF NEED[1] FOR THE NDSL[2] PROGRAM BY INSTITUTION TYPE: 1979-80, 1980-81

	0%		1-25%		26-50%		51-75%		76-100%	
Institution Type	**N**	**%**	**N**	**%**	**N**	**%**	**N**	**%**	**N**	**%**
1979-80										
Four-Year Public	166	34%	307	63%	13	3%	1	0%	1	0%
Four-Year Private	297	30%	687	69%	12	1%	2	0%	0	0%
Two-Year Public	266	58%	172	38%	12	3%	4	1%	1	0%
Two-Year Private	61	45%	67	49%	5	4%	1	1%	2	1%
Proprietary	275	24%	562	50%	192	17%	72	6%	30	3%
Total/Mean	1,065	33%	1,799	56%	234	7%	80	3%	34	1%
1980-81										
Four-Year Public	154	31%	333	67%	10	2%	3	1%	0	0%
Four-Year Private	268	24%	810	74%	14	1%	2	1%	0	0%
Two-Year Public	218	53%	187	46%	3	1%	0	0%	1	0%
Two-Year Private	54	32%	103	62%	8	5%	2	1%	0	0%
Proprietary	391	37%	471	44%	133	13%	40	4%	27	3%
Total/Mean	1,083	34%	1,904	59%	168	5%	47	1%	28	1%

[1] For the purposes of this chart, "need" is determined by the institution, based upon the applications reviewed during the previous year.

[2] Figures based on Federal Capital Contribution.

Source: FISAP.

FIGURE 5.7-4

FUNDING AS A PERCENTAGE OF NEED[1] FOR THE CW-S PROGRAM BY INSTITUTION TYPE: 1979-80, 1980-81

	0-25%		26-50%		51-75%		76-100%	
Institution Type	N	%	N	%	N	%	N	%
1979-80								
Four-Year Public	395	80%	87	18%	12	2%	2	0%
Four-Year Private	887	83%	150	14%	24	2%	9	1%
Two-Year Public	562	76%	150	20%	25	3%	3	1%
Two-Year Private	153	84%	19	10%	9	5%	1	1%
Proprietary	594	84%	91	13%	15	2%	11	1%
Total/Mean	2,591	81%	497	15%	85	3%	26	1%
1980-81								
Four-Year Public	433	86%	60	12%	6	1%	3	1%
Four-Year Private	1,017	86%	127	11%	25	2%	8	1%
Two-Year Public	642	82%	121	15%	21	3%	3	0%
Two-Year Private	200	86%	22	9%	8	3%	2	1%
Proprietary	513	90%	44	8%	8	1%	8	1%
Total/Mean	2,805	86%	374	11%	68	2%	24	1%

Source: FISAP.

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[1] For the purposes of this chart, "need" is determined by the institution, based upon the applications reviewed during the previous year.

The data in Figure 5.7-4 for the CW-S program show that, except for the proprietaries, all the school types were more likely to receive 25 to 50 percent of their self-determined needed funds through this program as compared to SEOG and NDSL, although the distribution of schools in the higher categories remains about the same as that for the other programs. However, this effect tended to reverse itself somewhat during 1980-81, compared to the prior year. In all of the above charts, need is determined by the schools. There may be significant differences in the method used for this calculation across schools.

A second measure of distribution of aid is the percentage of eligible applicants who become recipients. In this case, variation in awards is largely an effect of the delivery system, due to the fact that the system may discourage certain students from seeking aid, and that institutions have some discretion in determining Campus-Based awards. Eligible applicants may not become recipients of Federal aid for a number of reasons, including the sufficiency of other types of aid available, refusal to accept an award, or a basic lack of funds. Presented in Figures 5.7-5, 5.7-6, and 5.7-7 are data showing the percentage of eligible applicants who become recipients under the SEOG, NDSL and CW-S programs, respectively. The data are broken down by income and dependency status of students as well as by type of institution, for the years 1979-80 and 1980-81.

Figures 5.7-5, 5.7-6, and 5.7-7 show that, in general, higher income eligibles are less likely to become recipients than the eligibles with lower incomes, regardless of program or type of institution. The data also indicate that the four-year private schools tend to have the highest percentages of eligible applicants becoming recipients. This implies that the private universities can fund a greater percentage of their eligible population. The reason the four-year privates had a low percentage of Federal funds in comparison to total need is probably due to their higher costs of attendance. Again, the large standard deviations imply a great deal of variance in awards within groups. This could be attributable to differences in availability of Federal and non-Federal funding and/or to differences in aid packaging philosophies among institutions.

FIGURE 5.7-5

RECIPIENTS AS A PERCENTAGE OF POTENTIAL ELIGIBLE APPLICANTS FOR THE CW-S PROGRAM BY INSTITUTION TYPE, DEPENDENCY STATUS AND INCOME: 1979-80, 1980-81 (STANDARD DEVIATION IN PARENTHESES)

	Dependent						Independent	Graduate
Institution Type	$0- 6,000	$6,000 12,000	$12,000 18,000	$18,000 24,000	$24,000 30,000	Over 30,000		
1979-80								
Four-Year Public	29% (18)	28% (17)	26% (16)	20% (16)	14% (14)	10% (15)	24% (15)	26% (21)
Four-Year Private	42% (26)	42% (24)	42% (24)	39% (24)	34% (24)	26% (24)	28% (23)	26% (28)
Two-Year Public	25% (19)	23% (18)	21% (17)	17% (17)	15% (19)	10% (19)	15% (19)	N/A
Two-Year Private	32% (29)	34% (30)	32% (28)	31% (28)	24% (28)	20% (25)	18% (22)	N/A
Proprietary	8% (19)	8% (18)	8% (18)	7% (17)	7% (18)	7% (19)	6% (15)	N/A
Total/Mean	23% (25)	23% (25)	23% (24)	21% (24)	19% (23)	15% (22)	16% (20)	26% (26)
1980-81								
Four-Year Public	25% (17)	26% (16)	26% (16)	22% (15)	18% (15)	12% (14)	21% (13)	24% (20)
Four-Year Private	40% (26)	41% (24)	42% (23)	41% (24)	38% (24)	28% (23)	27% (23)	26% (28)
Two-Year Public	21% (18)	21% (16)	20% (11)	18% (16)	6% (18)	11% (19)	13% (12)	N/A
Two-Year Private	28% (28)	27% (27)	30% (27)	29% (27)	27% (29)	20% (26)	17% (21)	N/A
Proprietary	4% (13)	4% (11)	4% (12)	4% (13)	4% (13)	4% (14)	2% (08)	N/A
Total/Mean	21% (24)	21% (23)	22% (23)	21% (23)	20% (24)	16% (21)	14% (18)	25% (25)

Source: FISAP.

FIGURE 5.7-6

RECIPIENTS AS A PERCENTAGE OF POTENTIAL ELIGIBLE APPLICANTS FOR THE SEOG PROGRAM BY INSTITUTION TYPE, DEPENDENCY STATUS AND INCOME: 1979-80, 1980-81 (STANDARD DEVIATION IN PARENTHESES)

	Dependent						Independent
Institution Type	$0-6,000	$6,000-12,000	$12,000-18,000	$18,000-24,000	$24,000-30,000	Over 30,000	
1979-80							
Four-Year Public	24% (19)	23% (17)	17% (16)	11% (13)	6% (11)	3% (07)	18% (15)
Four-Year Private	36% (25)	37% (24)	33% (22)	26% (22)	16% (28)	7% (13)	21% (19)
Two-Year Public	15% (17)	14% (16)	10% (13)	7% (11)	4% (11)	2% (11)	12% (12)
Two-Year Private	27% (27)	28% (27)	26% (25)	20% (23)	14% (22)	7% (15)	18% (21)
Proprietary	29% (30)	26% (30)	24% (29)	19% (28)	15% (27)	9% (23)	23% (25)
Total/Mean	27% (26)	26% (26)	23% (25)	17% (23)	12% (20)	6% (15)	20% (21)
1980-81							
Four-Year Public	23% (18)	24% (18)	21% (16)	15% (15)	10% (16)	5% (12)	17% (13)
Four-Year Private	34% (24)	36% (23)	35% (22)	30% (21)	23% (21)	12% (13)	20% (20)
Two-Year Public	15% (17)	15% (16)	13% (14)	10% (13)	6% (12)	4% (11)	12% (12)
Two-Year Private	27% (28)	26% (25)	27% (25)	23% (23)	19% (24)	11% (20)	19% (21)
Proprietary	25% (28)	24% (28)	23% (28)	19% (23)	17% (28)	11% (24)	21% (21)
Total/Mean	25% (25)	26% (24)	24% (24)	20% (23)	16% (22)	9% (18)	18% (19)

Source: FISAP

FIGURE 5.7-7

RECIPIENTS AS A PERCENTAGE OF POTENTIAL ELIGIBLE APPLICANTS FOR THE NDSL PROGRAM BY INSTITUTION TYPE, DEPENDENCY STATUS AND INCOME: 1979-80, 1980-81 (STANDARD DEVIATION IN PARENTHESES)

	Dependent						Independent	Graduate
Institution Type	$0- 6,000	$6,000 12,000	$12,000 18,000	$18,000 24,000	$24,000 30,000	Over 30,000		
1979-80								
Four-Year Public	26% (19)	25% (17)	23% (16)	19% (15)	15% (14)	11% (15)	28% (18)	24% (19)
Four-Year Private	35% (26)	36% (25)	35% (24)	33% (24)	28% (22)	19% (20)	29% (23)	36% (25)
Two-Year Public	5% (09)	5% (09)	4% (08)	4% (08)	3% (10)	2% (10)	6% (10)	N/A
Two-Year Private	16% (24)	16% (22)	16% (22)	16% (23)	13% (22)	10% (20)	14% (22)	N/A
Proprietary	23% (30)	22% (29)	20% (30)	20% (29)	21% (32)	17% (31)	23% (28)	N/A
Total/Mean	22% (27)	22% (26)	21% (26)	20% (25)	18% (25)	13% (22)	21% (24)	34% (28)
1980-81								
Four-Year Public	24% (18)	25% (16)	25% (17)	23% (16)	20% (16)	14% (15)	24% (15)	35% (25)
Four-Year Private	33% (26)	34% (25)	35% (24)	34% (24)	31% (24)	21% (20)	25% (22)	30% (29)
Two-Year Public	5% (12)	5% (10)	5% (10)	5% (09)	4% (10)	4% (11)	6% (10)	N/A
Two-Year Private	13% (21)	14% (22)	15% (24)	14% (23)	13% (22)	11% (21)	11% (20)	N/A
Proprietary	20% (29)	20% (28)	19% (28)	18% (29)	19% (31)	18% (31)	20% (26)	N/A
Total/Mean	21% (26)	21% (25)	21% (25)	20% (25)	19% (25)	15% (22)	18% (22)	31% (28)

Source: FISAP.

The major weakness of the measures used to assess distribution of aid is that the concept of "institutional need" is highly subjective and widely variable among schools. Any effort to assess the degree to which Federal funds meet institutional need will therefore result in a fairly soft measure of this effect. Also, the large standard deviations that appear in Figures 5.7-1, 5.7-5, 5.7-6, and 5.7-7 indicate that the means presented are best used only for comparative purposes between year and type of school, but not for describing the characteristics of individual school types.

5.7.3 EFFECT BY ACTIVITY

No breakdown of this effect by activity is presented, since it relates primarily to application rates and determination of Campus-Based awards.

5.8 OTHER AID PROGRAMS (INSTITUTIONS)

5.8.1 OVERVIEW

Definition

"Other aid programs" refers to the impact of the Federal student aid delivery system for the Pell, GSL and Campus-Based programs on other aid programs offered by institutions.

Summary

Most institutions have non-Federal aid programs from institutional or other sources, or enroll students who are eligible for funds from other Federal programs (e.g., State Student Incentive Grants). Other institutional aid programs, beyond the specific programs included in this project, vary considerably in size and complexity. At some private institutions, such as Stanford University, institutional aid programs are larger in dollars and recipients than the Federal programs. At the other extreme, some small colleges and proprietary institutions, such as WTI Western Business College, administer no programs other than Federal programs. Usually the campuses administer their own programs similarly to the way they administer Campus-Based programs. All institutions had some degree of integration across programs.

5.8.2 FINDINGS

Site visits to institutions found that the majority administer, in addition to the major Federal Title IV programs, various other aid programs from state, institutional, private, and other Federal sources. Also, most of the institutions visited have integrated their administration of other aid programs with their administration of the Federal Title IV programs to varying degrees.

At the University of Florida, for example, the Financial Affairs Office administers and/or coordinates all forms of student aid, as well as administering all student employment by the University. Applicants use only one application packet to apply for all types of aid offered by or through the University. For the purpose of contacting students, the Financial Affairs Office is comprised of operational units for the state grant program, the Pell Grant program, GSL, and directly administered aid (including Campus-Based and all other university-controlled aid). More information on these issues is presented in the following section.

5.8.3 EFFECT BY ACTIVITY

Because of the wide diversity in types, numbers, and sizes of other aid programs administered by or through institutions, no summary data are available for assessing the effects of the Pell, GSL, and Campus-Based delivery systems upon these other aid programs. Most schools do, however, distribute aid funds from external sources prior to utilizing their own internal aid funds. All aspects of delivery can be affected by other aid programs, depending on the nature of the other programs and institutional policy and procedures.

Pre-Application Subsystem

The institutional activities in the pre-application subsystem for other aid programs are affected by the Pell, GSL, and Campus-Based programs under consideration, since information dissemination, forward planning, and development of policies and procedures require consideration of all sources of aid.

Student Application, Eligibility Determination and Benefit Calculation Subsystems

The student application, eligibility determination, and benefit calculation subsystem activities are also affected by the level of integration of Federal and non-Federal aid program administration. Many institutions use only one application form for all types of aid programs, or may use the data collected for a Title IV program application (e.g., the SAR) to determine eligibility and need for state, institutional, or private aid programs. The institution's award packaging methodology is often affected by integration of the major Title IV programs and other aid programs. Institutions often allocate award funds in a particular order, thus using Federal fund resources before turning to state or institutional programs or vice-versa.

Funds Disbursement Subsystem

The funds disbursement subsystem activities also can be affected by integration of aid program administration. Some institutions disburse aid separately by program, and some combine all aid sources into a single disbursement procedure for each recipient.

Account Reconciliation Subsystem

Account reconciliation subsystem activities often require integration of administrative recordkeeping, reporting, and data retention procedures for the various programs.

In all six subsystems, an institution administering the Pell, GSL, and Campus-Based programs has Federal legislative and regulatory requirements to meet. Establishing administrative policies and procedures to meet these Federal requirements has definite impact upon determining the institution's administrative procedures for the various other student aid programs.

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CHAPTER SIX

LENDER AND SECONDARY MARKET EFFECTS

6.1 RATE OF RETURN (LENDERS/SECONDARY MARKETS)

6.1.1 OVERVIEW

Definition

Rate of return is the percentage derived from dividing profit by investment, where profit equals gross student loan revenues minus relevant administrative costs, claims denied reimbursement, and taxes. Investment represents the amount of student loan capital outstanding. Gross revenues include student interest payments, note transfer or warehousing revenue, Federal special allowance and interest subsidy payments, receipts from claims, and any other relevant revenue. Administrative costs are the actual expenditures on a given delivery system activity, including the proportion of staff salaries, office supplies, system maintenance costs, contractual costs, and office rent and maintenance. Most lenders also include their costs of funds in calculating their rate of return. This number is internally generated to allocate available loan capital among competing demands; in other words, it represents the "opportunity costs" associated with student loans as determined by a particular lender.

Revenues are generally determined by the program, while costs are primarily determined by the delivery system. The difference between revenues and costs, divided by investment, represents a primary incentive for lender participation in the program. Lenders may include postsecondary educational institutions, guarantee agencies, commercial banks, savings and loan associations, credit unions, insurance companies and other educational associations. Secondary markets include the participants just listed as well as the Student Loan Marketing Association, who purchase loans from the original lender.

Summary

It is difficult to obtain data relevant to the rate of return for student loans, since most lenders are reluctant to share this information. Most data that are available relate primarily to the administrative cost component of the rate of return for only a few lenders. It is difficult to extrapolate national averages from these few cases, since costs are very dependent on lender size, type, location, policies, volume of student loans, and degree of automation. Lender decisions regarding the sale of loans or contractual servicing arrangements also affect these costs.

Lenders note that the costs of adjusting their systems to constantly changing program requirements can be very high. Loan origination can cost $80 to $120 per loan, according to a survey cited by one lender. Costs related to loans with in-school or grace status are relatively small, including primarily the cost of tracking borrower status. One survey found that loans in repayment cost $4 to $5 to process each payment. Processing delinquent payments was estimated at $17 to $18 per payment received. In addition, reporting, audit, and review requirements can be very costly.

Although unknown, the rate of return on student loans is apparently adequate to encourage lender participation. The lenders interviewed noted that in the early years of the GSL program, community service was the primary reason for participation. As the special allowance and interest rates have risen, profitability has become the most important incentive for participation, increasing the number of participating lenders and the loan volume per lender.

6.1.2 FINDINGS

"List of Active Reports Approved under the Federal Reports Act" Office of Postsecondary Education, U.S. Department of Education, 1983

This document contains a list of the reports currently being submitted to the Department of Education with an estimate of the hours required to complete them. The estimates are usually made by the branch chief originating the form. Lenders have commented that they believe these numbers under-estimate the amount of time required. Figure 6.1-1 presents the estimates for forms completed by lenders.

FIGURE 6.1-1

LENDER PAPERWORK BURDEN

REPORT	ANNUAL RESPONSES	TIME PER RESPONSE
Lenders Request for Interest and Special Allowance Payment	48,000	75 minutes
Call Report (Primarily FISL)	22,500	2 hours
Loan Transfer Statement (FISL)	16,265	2 hours
Lenders Manifest (Primarily FISL)	52,000	2 hours
Request for Collections Assistance (FISL)	43,000	20 minutes
Federal Loan Transaction Statement (FISL)	133,000	1 hour

Source: List of Active Reports Approved Under the Federal Reports Act as of 3/31/83.

These estimates provide a general indication of the paperwork burden on lenders and note servicers imposed by the delivery system. While these reports are used primarily for the FISL program, guarantee agencies require similar forms to be filed, so the time per response figure can be used in establishing estimates for the state agency program as well. No data are available on how these time expenditures translate into costs.

"The Benefits of the NJHEAA Guaranteed Student Loan Program for a New Jersey Bank," Marlene C. Johnson, June 1981

This paper is one of the few studies available on lender costs and revenues. It concludes that the major incentives for lender participation in GSL are profitability and community service. The findings of this report include:

- Lenders tend not to study the costs of administering student loans separate from their other related portfolios, but many estimate that these costs are higher than the servicing costs of their other loan portfolios.
- Student loan yields tend to be higher than yields for other types of portfolios, as illustrated by Figure 6.1-2. However, the perceived additional costs of servicing these loans may offset the higher yields.
- A 1976 study by Touche-Ross for the U.S. Office of Education reported the following findings related to the Guaranteed Student Loan Program:[1]
    - Loan-related costs are highest in urban or inner city areas.
    - The costs of funds (a rate developed by the bank to allocate capital available for loans among competing demands) averages 60 percent of total loan costs.
    - The complexity and constant changes of GSL regulations increase costs because of the need to modify computer software. These costs can drive lenders out of the program.
    - Assistance from state guarantee agencies (GAs) can decrease costs and increase lender willingness to participate in the program.
    - Loans in repayment require higher servicing costs than loans in the in-school or grace periods. Conversion to repayment status was found to be the hardest task for lenders, encouraging them to sell loans in the secondary market prior to repayment.

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[1] It should be noted that the GSL program has changed significantly since 1976.

FIGURE 6.1-2

COMPARISON OF LOAN RATES

AS OF	PRIME RATE	SHORT TERM COMMERCIAL LENDING[a]	LONG TERM COMMERCIAL LENDING[a]	CONSTRUCTION LOANS[a]	STUDENT LOANS[b]
Feb. '81	19.50	19.91	19.26	19.40	18.68
Nov. '80	16.25	15.71	15.07	15.31	18.00
Aug. '80	11.25	11.56	12.06	13.16	13.38
Feb. '80	15.75	15.67	15.32	15.79	17.38
Nov. '79	15.55	15.81	15.55	15.51	16.00
Aug. '79	11.91	12.31	12.25	12.52	13.63
Feb. '79	11.75	12.27	12.01	11.79	13.25
Aug. '78	9.01	9.97	10.20	10.43	11.13
Feb. '78	8.00	8.95	9.19	9.69	10.13
Nov. '77	7.75	8.66	8.71	9.19	9.88

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[a] Weighted Average Interest Rates.

[b] Gross Yield, rounded to the nearest one-hundredth.

Sources: Federal Reserve Bulletin, June 1981.
Federal Reserve Bulletin, March 1981.
Federal Reserve Bulletin, December 1980.
Federal Reserve Bulletin, June 1980.
Federal Reserve Bulletin, February 1980.
Federal Reserve Bulletin, October 1979.
Federal Reserve Bulletin, June 1979.
Federal Reserve Bulletin, December 1978.
Federal Reserve Bulletin, July 1978.
Federal Reserve Bulletin, February 1978.

Source: The Benefits of the NJHEAA Guaranteed Student Loan Program for a New Jersey Bank, Table 5.

- The author studied administrative costs at a New Jersey bank. This bank had an average of 1.2 million dollars of student loans outstanding during 1980, with a full-time staff of 1.2 persons administering this portfolio. This staffing pattern is adequate according to the "rule of thumb" that each $1 million worth of loans requires 1 person to administer them.

- At this New Jersey bank, administrative costs support the conclusion that student loans are more expensive to service during the repayment period than during the in-school and grace periods, as illustrated in Figures 6.1-3 through 6.1-8.

- Additional income can be generated by making multiple disbursements, because interest and special allowance payments are on the entire amount of the loan, even if only a portion of the funds is disbursed. As of the author's writing, only 13 New Jersey lenders had been approved by the Secretary of Education to make multiple disbursements. Eight were minimally participating because of the extra paperwork involved or because of negative reactions from their customers. Of the remaining five, all reacted positively to the feature, stating that it allowed them to keep better control of their portfolio since the student must return to the lender for his/her second disbursement. Requiring the borrower to return to the lender also helps the lender verify student enrollment status.

- Because student loans are guaranteed against borrower default, death, total and permanent disability, or bankruptcy discharges, the lender does not have to reserve the usual one percent of funds against possible losses. As long as a lender meets due diligence and claim packaging requirements, there should be no losses on GSLs. This lack of risk can increase the yield on the loans.

- Some lenders believe that student loans could be used to establish and maintain relationships with individuals who may be sources of future consumer loans. However, none of the lenders surveyed had implemented a program to sell other services to student borrowers.

Site Visits

The lenders participating in the project site visits did not have, or were reluctant to share, rate of return data. They were willing to observe, however, that their participation implied a "reasonable" rate of return was being achieved. At Chase Manhattan Bank, loan officers noted that they have access to mailing lists for marketing services that are better targeted than student loan rosters; for example, from news magazines. Merchant's National Bank of Mobile noted that developing an ongoing relationship with a borrower may be one reason for involvement in the GSL program, but it is not the primary one.

FIGURE 6.1-3

A NEW JERSEY BANK STUDENT LOAN OPERATING COSTS AND ACTIVITY VOLUME (1980)

	In-School & Grace Period	Repayment Period	Totals
Average Loan Quantities:			
A. Total Loan Balances	$957,947.29	$265,825.25	$1,223,762.54
B. Number of Loans	436.00	110.00	546.00
C. Average Balance Per Loan	2,197.13	2,416.50	2,241.32
Average Costs:			
D. Costs Within the Student Loan Department	13,111.00	8,113.00	21,224.00
E. Costs of Other Departments that Provide Services	3,197.00	1,144.00	4,341.00
F. Cost of Funds	93,127.00	25,842.00	118,969.00
G. Total Operating Costs	109,435.00	35,099.00	144,534.00
Annualized Cost Per Loan:			
H. Within the Student Loan Department	30.07	73.75	38.87
I. Other Departments that Provide Services	7.33	10.40	7.95
J. Cost of Funds	213.59	234.93	217.89
K. Total Operational Costs	250.99	319.08	264.71
Annualized Cost Per Dollar of Loan Balance:			
L. Within the Student Loan Department	1.36%	3.05%	1.73%
M. Other Departments that Provide Service	.33%	.43%	.35%
N. Cost of Funds	9.72%	9.72%	9.72%
O. Total Operating Costs	11.41%	13.20%	11.80%

A. From Office of Education Form 799 and internal department reports.
B. From Office of Education Form 799 and internal department reports.
C. A divided by B.
D. Derived from other tables.
E. Derived from other tables.
F. Derived from other tables
G. D + E + F.
H. D divided by B.
I. E divided by B.
J. F divided by B.
K. G divided by B.
L. D divided by A.
M. E divided by A.
N. F divided by A.
O. G divided by A.

Source: Ibid, Table 7.

FIGURE 6.1-4
A NEW JERSEY BANK GSL REVENUE (1980)

ITEM	In-School & Grace Period	Repayment Period	Totals
A. Average Outstanding	$957,947.29	$265,815.25	$1,223,762.54
B. Interest Billed to HEW on Subsidized Loans	65,314.67	0	65,314.67
C. Interest Billed on Non-Subsidized Students	2,720.04	0	2,720.24
D. Interest Earned on Notes in Repayment	0	17,350.56	17,350.56
E. Special Allowance Billed to HEW	84,916.06	23,562.94	108,479.00
F. Late Charges	0	154.23	154.23
G. Gross GSLP Revenue	152,950.77	41,067.73	194,018.50
H. Less Interest Not Collected and Claims Denied	0	0	0
I. Net GSLP Revenue	152,950.77	41,067.73	194,018.50
J. Yield	15.97%	15.45%	15.85%

A. See Figure 6.1-3.
B. NFSB OE Forms 799.
C. Student Loan Department internal reports.
D. Student Loan Department internal reports.
E. NFSB OE Forms 799.
F. Student Loan Department internal reports.
G. B + C + D + E + F.
H. Student Loan Department internal reports.
I. G minus E.
J. I divided by A.

Source: Ibid, Table 8.

FIGURE 6.1-5

A NEW JERSEY BANK GSL PROFIT (1980)

CATEGORY	In-School & Grace Period	Repayment Period	Totals
A. Adjusted Revenue	15.97%	15.45%	15.85%
B. Expenses			
Direct	1.36%	3.05%	1.73%
Cost of Funds	9.72%	9.72%	9.72%
Indirect	.33%	.43%	.35%
Total Expenses	11.41%	13.20%	11.80%
C. Spread	4.56%	2.25%	4.05%

A. See Figure 6.1-4.

B. See Figure 6.1-3.

C. A minus B.

Source: Ibid, Table 9.

FIGURE 6.1-6

A NEW JERSEY BANK COST WITHIN THE STUDENT LOAN DEPARTMENT (1980)

EXPENSE	In-School & Grace Period	Repayment Period	Totals
A. Personnel	$12,054.00	$7,085.00	$ 19,139.00
B. Depreciations	476.00	256.00	732.00
C. Supplies and Services	531.00	772.00	1,353.00
D. Totals	$13,111.00	$8,113.00	$ 21,224.00

A. See Figure 6.1-7

B. Derived from other tables.

C. Totals obtained from analysis of bank's expense and invoice files. Where possible, actual expenses were allocated to loan periods. When this could not be determined, amounts were allocated to loan periods by percentage of full-time equivalents.

Source: Ibid, Table 11.

FIGURE 6.1-7

A NEW JERSEY BANK PERSONNEL COSTS (1980)

	Portion of Full-Time Work Year Spent on Each Period		
	In-School & Grace Period	Repayment Period	Totals
Employee #1	.24	.23	.47
Employee #2	.01	.11	.12
Employee #3	.54	.08	.62
A. Total Full-Time Equivalent Employees	.79	.42	1.20
B. Percent of Total Full-Time Equivalents	65%	35%	100%
C. Allocation of Compensation by Function:			
Employee #1	5,544.00	5,356.00	10,900.00
Employee #2	68.00	753.00	821.00
Employee #3	6,442.00	976.00	7,413.00
D. Total Personnel Cost	12,054.00	7,085.00	19,139.00

A. Department personnel maintained time records and these numbers were used as the basis for the time spent on each loan period.

B. A, expressed as a percentage.

C. Salary and benefit figures were obtained from the personnel department. Each employee's salary was multiplied by the portion of time spent in each loan period.

D. C, totaled.

Source: Ibid, Table 12.

FIGURE 6.1-8

A NEW JERSEY BANK TOTAL STUDENT LOAN COSTS BY COST CATEGORY[a] (1980)

CATEGORY OF COST	In-School & Grace Period	%	Repayment Period	%	Totals	%
DIRECT						
Labor	$12,054	11.00%	$7,085	20.18%	$19,189	13.24%
Occupancy	476	.44	256	.73	732	.54
Supplies	343	.31	214	.61	557	.39
Postage	210	.19	122	.35	332	.23
Data Processing	-	-	422	1.20	422	.29
Other	28	.03	14	.04	42	.02
Subtotal	$13,111	11.97%	$8,113	23.11%	$21,224	14.68%
COST OF FUNDS	$93,127	35.11%	$25,842	73.62%	$118,969	82.31%
INDIRECT COSTS[b]						
Administrative	$1,681	1.53%	$ 187	.53%	$ 1,868	1.29%
Bank Wide Overhead	1,516	1.39	957	2.73	2,473	1.71
Subtotal	$3,197	2.92%	$1,144	3.26%	$ 4,341	3.00%
TOTAL COSTS	$109,435	100%	$35,099	100%	$144,534	100%

[a] Totals may not sum due to rounding.

[b] Indirect costs are allocated based on full-time equivalent staffing with adjustments for expenses directly attributable to certain loan periods, i.e., computer expense, advertising, etc.

Source: Ibid, Table 13.

GSL participants visited also noted that early in the GSL program, the primary incentive for participation was community service; but as the special allowance rate rose, profitability became the primary incentive for participation. Additional data from the site visits to lenders, state agencies, and loan servicers is presented in the following section.

6.1.3 EFFECT BY ACTIVITY

Because lenders are not involved in the Pell or Campus-Based programs (except for a few schools that make both GSL and NDSL loans), data are presented for the GSL program only. This section matches the data presented earlier with the appropriate subsystem activities, supplemented by information collected in the site visits. Costs can vary greatly by lender size, type, and degree of automation, and by state because of differing rules and procedures imposed by the guarantee agency.

The GSL Component

Pre-Application Subsystem

Historically, lenders have had a relatively low level of participation in activities related to the creation of GSL policy. Most lender pre-application activities are related to marketing, systems revision, and forward planning. No cost data are available for these activities, although many lenders noted that the constant changes in the program have led to substantial costs for revision of their computerized systems. One lender, Chase Manhattan Bank, noted that students generally contact their schools, rather than participating lenders, to initially inquire about the program.

Student Benefit Calculation Subsystem

Lender costs related to loan origination average $80 to $120 per loan, according to a survey quoted by one of the lenders interviewed. These costs vary according to the stringency with which the lender reviews the application, and lender and guarantee agency (GA) policies related to origination. Some states and some lenders require the borrower to have a face-to-face interview with the lender prior to approval of at least the first loan. Program-related costs for these activities also include payment of an insurance premium of not more than 1 percent of loan value to the GA, where required. This fee, as well as the 5 percent origination fee retained by the lender, may be deducted from the face value of the loan. In addition, there are the costs of acquiring GA approval: the costs of completing the appropriate forms, sending them to the GA, and processing them upon return. In some cases the lender may also notify the school and/or student of decisions related to loan approval at this time.

Fund Disbursement Subsystem

Issuance of the promissory note and the required notification of borrower rights and responsibilities does not appear to be particularly expensive process, since most lenders use standard forms which are frequently generated by computer. Some GAs generate promissory notes at the time of quarantee approval as a service to their lenders. Contacting the student to sign the note is also unlikely to be an expensive procedure, nor is the process of cutting checks and mailing them to the student or school. Although one would expect that multiple disbursements would be more costly than single disbursements, the lender can actually generate more revenue through the former since interest subsidies and special allowances are paid on the full amount of the loan, not just on the amount disbursed. One lender interviewed estimated that multiple disbursements can increase yields by 10 to 15 percent.

The cost of selling loans or contracting out for servicing varies depending on the arrangements made by the parties involved. The Student Loan Marketing Association (SLMA) pays par value for loans, if the per student level of indebtedness meets the required minimum, but will only buy loans that are well documented. Lenders may also borrow against their loan portfolios from SLMA. Data on the costs of these activities are not available. At the present time, most lenders do not sell their loans or contract for servicing. However, the secondary market for student loans is expanding rapidly, and many guarantee agencies are increasing their role in this market.

While the Federal government has estimated that the Request for Payment of Interest and Special Allowance form only takes 75 minutes to fill out, the cost of this activity may be fairly high. Lenders must also collect and update the data which are needed for this Request. Some servicing agencies and GAs will perform this function for the lender. Revenues received from this activity depend on the applicable interest and special allowance rates as well as the status and principle balance of the loan portfolios. Between 1979 through 1982, the average interest plus special allowance rate was 15.53 percent. As noted earlier, this rate can be increased as much as 10 to 15 percent by multiple disbursements, although few lenders take advantage of this opportunity.

Account Reconciliation Subsystem

According to the Johnson study cited earlier, loan conversion to repayment status can be the most difficult delivery system activity for the lender. Note owners (or servicers) must constantly update their records as they receive reports on enrollment status. Once the student enters his or her grace period, the lender must develop and send out a repayment schedule. Costs applicable to this activity are probably fairly small, since most lenders use a standard form which is often generated by computer. However, some states require that the borrower sign and return the schedule, requiring follow-up work by the noteowner or servicer. As illustrated by the figures in the previous section, operating costs associated with loans in grace or in-school status are lower than costs associated with repayment. Excluding the costs of funds, the annual cost of servicing a loan during the in-school and grace period was approximately $37 at one New Jersey bank. During repayment, this cost jumps to $84 per year.

No data are available on the costs of loan consolidation. This activity is normally initiated by the borrower, and most lenders will not sell loans for consolidation unless they are paid par value.

Some lenders bill students for payment once they enter repayment status, while others send out coupon books. There seems to be no consensus on which of these methods is most cost-effective. One lender interviewed quoted a survey that stated an average lender cost of $4 to $5 for processing each individual payment received. The amount of revenue received by the lender during repayment depends on statuatory payment limits, applicable interest rates, the loan principle outstanding, and the terms of the repayment schedule.

Collecting delinquent payments can be far more expensive than processing timely payments, although in some states lenders can capitalize interest, charge a late fee, or pass the costs of collections on to the borrower. Lenders must follow due diligence procedures mandated by the state and Federal guidelines. One lender interviewed quoted a survey that estimates average costs of obtaining a payment on a delinquent loan as high as $17 to $18 since activities related to collecting delinquent payments may require several contacts with the borrower. The Student Loan Marketing Association servicers generally send out 5 notices up to the time when payment is 90 days delinquent, and frequently try to contact the borrower by phone during this period. Merchant's National Bank of Mobile sends out six notices during this same time period. In March 1983, Merchant's National placed 172 calls to borrowers with delinquent accounts, and spent 600 person-hours on these phone calls. Chase Manhattan Bank sends notices at 11 and 21 days delinquent, then sends notices every 7 days once the payment is 30 days delinquent. In addition, requesting pre-claims assistance under FISL requires an average of 20 minutes to fill out the form; approximately the same amount of time is probably needed under the state agency program.

There are also costs associated with issuing forebearance and approving deferral. The note owner or servicer must review the request, process the related paperwork, and update the borrower's records. If the borrower enters default, is adjudicated bankrupt, dies, or becomes permanently and totally disabled, the lender must retrieve the documents necessary to submit a claim, collect proof of death, disability, or bankruptcy, fill out the appropriate claim form, and submit a claims package. According to SLMA, these packages can include 40 to 100 pages of documentation, although specific requirements vary by state.

Defaults occur somewhat infrequently, and claims due to death, disability, and bankruptcy are very few (large servicers and lenders estimated that they only deal with one or two per month). However, according to the note owners and servicers interviewed, getting the necessary documentation for proof of death or disability can be very time-consuming. Bankruptcies can be even more of a problem. All the lenders and servicers interviewed noted that they frequently do not receive notice of bankruptcy hearings in a timely manner. Judges then discharge debts without realizing that some of them are student loans, for which there are different bankruptcy requirements. The lender then has to choose between ignoring the fact that the loan may have been erroneously discharged, or going to court to attempt to reverse the judgment. Lenders rarely try to collect on a loan once a claim is paid. The amount of the claim payment depends on the outstanding loan principle, interest due, the reason for the claim, whether or not interest is capitalized, and the applicable reimbursment rate - - as determined by Federal and state laws and regulations. Lenders almost never repurchase defaulted paper except in very unusual circumstances.

Note owners or servicers for GSL must meet different reporting requirements, depending on the state(s) that guarantees their loans and on whether they also have FISL loans. Generally the lender must report all changes in loan status to the GA, as well as originations when they ask for guarantee approval, and when documenting requests for claim payments. The Loan Transaction and Loan Transfer statements used to report these changes in status for FISL loans take an average of one and two hours respectively to complete; equivalent state agency forms probably require similar time expenditures. Some lenders utilize tape exchange for reporting purposes.

Lenders participating in both FISL and the state agency programs must also fill out Call Reports and Lenders Manifests for the Federal Government, each requiring two hours to complete. State agencies may also require similar reports on lender portfolios. In addition, the note owner or servicer must develop systems that collect and report the required information. As noted earlier, changes in these reports and in the programs can require expensive systems changes by the lender.

According to the lenders interviewed, students loans are usually included in the financial audits required by banking regulations. In addition, FISL lenders are subject to program compliance reviews by ED, and state agency lenders are reviewed by the GA on an annual or biennial basis. These audits and reviews can be very costly for the lender, both in terms of organizing records for inspection and in accommodating the disruption caused by on-site investigators. Each lender is often subject to multiple audits and reviews each year, because of the numerous agencies that regulate their activities.

6.2 CERTAINTY OF FUNDS (LENDERS/SECONDARY MARKETS)

6.2.1 OVERVIEW

Definition

Certainty of funds is the probability that a lender or note owner will actually receive the amount of funding expected, and/or the probability that funding will be received when it is expected. Expectations involve subjective judgments that will change as new information is received or assimilated, so the degree of certainty that the lender has will change over time. This effect is also important because it may influence decisions related to program participation, as well as fund forecasting and cash flow.

Summary

Data collected in interviews indicated that note owners and servicers can generally predict how much money they will receive and the timing of receipt for subsidy and claims payments. Requests for payment are denied or adjusted very infrequently (e.g., according to lenders and servicers interviewed, only 1 to 2 percent of claims are denied), and the turnaround time for receipt of funds is predictable. However, lenders do face a great deal of uncertainty regarding changes in program requirements. Related information is often not received in a timely fashion, and may be contradictory, inaccurate, or incomplete. The costs of adjusting to these changes can be very large, and the frequency of these changes make fund forecasting and forward planning very difficult.

6.2.2 FINDINGS

Interviews and Site Visits

Interviews with lenders, loan servicers, state agencies, and Department of Education personnel yielded some data on certainty of funds. Because these data are applicable to specific points in the delivery system, rather than to the delivery system as a whole, they are reported in the following section. Lender, servicer, and state agency data should be approached with some caution, since they are taken from a small, and not necessarily representative, sample of these participants.

6.2.3 EFFECT BY ACTIVITY

Data on certainty of funds are presented below for the relevant subsystems of the GSL program. Because lenders are not involved in the Pell or Campus-Based programs (except for a few schools who are lenders for both GSL and NDSL), these delivery system components are not included for this effect.

The GSL Component

Pre-Application Subsystem

Most uncertainties that affect lenders are related to this subsystem. The laws and regulations that both govern the programs and determine delivery system activities have constantly changed over the life of the GSL program. All lenders and loan servicers interviewed noted that uncertainties related to program changes make funding forecasting and forward planning difficult, if not impossible. These changes are also expensive, because they frequently require revisions in loan processing systems. Because the content of the alterations is not always known in a timely manner, lenders must incur the expense of rapid system changes or of utilizing manual procedures until automated systems can be updated. Thus it is difficult to forecast administrative costs, as well as the impact of the changes on gross program revenue. In addition to not being timely, information on these changes is not always consistent, accurate, or complete. Although a lender may hear about proposed law or regulation changes prior to implementation, the proposal may go through many significant changes before (and if) it is enacted. For example, it is not unusual for major regulatory changes to take 240 to 250 days to reach final status. No information regarding certainty of lender eligibility decisions is available.

Student Benefit Calculation Subsystem

Because lenders have discretion in making loans, the lenders interviewed noted that no uncertainty is related to this activity. No concern was voiced related to being able to forecast the number of loan applications received, perhaps because this is considered a marketing (rather than delivery system) issue. Lenders generally know how long it takes the relevant guarantee agency to approve a loan. For example, Chase Manhattan Bank, which lends under the auspices of numerous agencies, noted that it normally takes about three weeks for approval. The Higher

Education Assistance Foundation (HEAF), which acts as a guarantor in a number of states, noted that about 10 percent of all applications are rejected initially, but 90 to 95 percent of these applications are corrected and approved. Only about 1 percent of all applications do not eventually receive guarantee approval.

Funds Disbursement Subsystem

Lenders note few uncertainties related to the disbursement of loans. Some students do not sign the promissory note or drop out of school, leading to cancellation of the loan. Loans disbursed during the summer led to the highest number of cancellations according to one lender. However, these uncertainties do not seem to create large problems for lenders, perhaps because these occurences are infrequent.

In the past, timely processing of requests for interest subsidy and special allowance payments was a problem. However, the Department must now pay penalty interest on any payments that are not processed in 30 days. It seems likely that lenders receive the amount of money that they request in part because the lenders interviewed said they had no problems related to this delivery system activity; in part because the Department only checks the requests for "reasonableness," completeness, and for the accuracy of the mathematical calculations; and in part because subsidy rates are set by law and tied to Treasury Bill rates. The Student Loan Marketing Association (SLMA) only rejects 1 to 2 percent of the loans offered to them for sale or warehousing, usually because of inadequate documentation. Thus lenders probably have a high degree of certainty related to revenues from these arrangements.

Account Reconciliation Subsystem

Lenders interviewed noted that student status changes can be difficult to track, leading to a substantial amount of uncertainty. Students do not always notify their school of status changes, and confirmation reports are only sent out two to three times a year by most GAs. Lenders often decide to also send out requests for information on status, placing a large burden on insitutional reporting systems. These status changes are important because they determine when repayment revenues will begin to be received.

The lenders interviewed were reluctant to share data on their default rates. However, many noted that they believe that the student loan default rate is good considering the fact that no collateral is required and that they are dealing with a population that has little or no experience with loan requirements. Lenders and servicers did note that the majority of defaults occur in the first year of repayment.

Lenders seem to differ in their ability to get claims reimbursed. SLMA reports that only 1 percent of their claims are rejected, most likely because of the stringency with which they review loans prior to purchase. Other lenders seem to have problems maintaining the documentation needed to file a claim, leading to higher rejection rates. In addition, lenders have trouble tracking the changes in state requirements, and the differences between various guarantors. SLMA, which services loans under the auspices of almost all 58 state agencies, noted that it normally takes 60 to 120 days for a claim to be paid.

6.3 FUND CONTROL (LENDERS/SECONDARY MARKETS)

6.3.1 OVERVIEW

Definition

Fund Control is actually a composite of several related indicators or proxy measures. One component of fund control is miscalculation/error. It refers to mistakes made by the lenders themselves, or by other participants who are transferring information or funds to the lenders or note owners. This effect includes errors that influence the determination of student eligibility and/or the amount of disbursements and receipts, as well as the ability to capture and correct these errors. These mistakes may be in the form of data items that are inaccurate or of mathematical or other miscalculations, and may have a positive or negative effect on the lender. Fund control also refers to the lender's ability to track and account for his funds, and default and collection rates (see also 6.2 "Certainty of Funds").

Summary

For lenders and note holders the biggest problem associated with fund control appears to be the verification of student status. In site visits, the fact that up to 75 percent (or more) of borrowers leave school without notification of the lender (and frequently, the school) was cited as an important fund control problem. In addition, there was some feeling that many schools do not complete the student confirmation reports in an accurate manner. Another fund control problem cited was the incorrect determination of the appropriate interest rate for repeat borrowers. Other aspects of lender fund control are primarily the result of the adequacy of the accounting and billing systems used by the individual lender.

6.3.2 FINDINGS

"Quality in the Basic Grant Delivery System, Stage 1,"
Advanced Technology, Inc. and Westat, Inc., U.S. Department of Education, 1982

This study focused on error in the Pell Grant Program, using data from a national probability sample of Pell Grant recipients. Data were collected through parent and student interviews; releases of information from the IRS, local tax assessors, and financial institutions; abstracts of student files at institutions; and interviews with financial aid administrators.

While the study focused on Pell Grant recipients, the findings can be used as a first approximation of error in the GSL program. To the extent that the categorical eligibility criteria are general requirements for all Federal financial assistance, the findings are instructive. Figure 6.3-1 presents the results for selected components of error--those that could affect GSL eligibility or need analysis, leading to loans to ineligible students, or loans that exceed the statutory limits. It should be noted however, that GSL applications are subject to different types of reviews than Pell, and that the programs serve different types of students.

"Field Testing of 1982-83 BEOG Application Forms: Final Report," Rehab Group, Inc. and Macro Systems, Inc., U.S. Department of Education, 1981

This field test of three alternate Pell applications on a sample of about 400 people tabulated error rates for various application items. All three forms tested had, on the average, about three errors. Item error rates ranged up to nearly 40 percent, which is consistent with the QC Stage One report. These errors could again lead to loans to ineligible students.

"Technical Specifications for QC System Enhancements to the Manual GSL Interest Billing Process," Advanced Technology, Inc., U.S. Department of Education, 1982

This report cites some data from previous studies on Department of Education manual and automated processing of interest and special allowance payments to lenders. These problems may lead to over- or underpayments to lenders. For example:

- In September of 1981, the Office of the Inspector General cited a 50 percent error rate in the manual process and in excess of $400,000 in penalty interest payments to lenders due to lack of timeliness in processing.
- A 1972 audit revealed that 96 of 108 lending institutions reviewed (39 percent) made errors in interest subsidy billings and 81 percent erred in reporting quarterly loan balances used in special allowances computations. Of the $167 million paid that year for interest subsidies, an estimated $6 million represented overbillings. Most lenders were unaware of the overbillings.
- A 1975 GAO study identified over $1.6 million in duplicate and overpayments returned by lenders on their own initiative. OSFA could not tell which lenders had duplicate payments, however, because the GSL system had not been updated to recognize returned checks.

FIGURE 6.3-1

SELECTED PELL GRANT ERROR RATES
(1980-1981)

Type of Error	Frequency %
No Affidavit of Educational Purpose	3.74
No Financial Aid Transcript	4.10
Holds Bachelor's Degree	0.17
Citizenship Error	0.06
Course Less than Six Months	0.03
Less than Half-Time	0.06
Non-degree Student	0.06
Grant or Loan Default	0.07
Not Maintaining Satisfactory Progress	1.23
Cost of Attendance Error	15.00
Enrollment Status Error	18.20
Student (SEI) Error[1]	41.00

[1] "SEI errors" are errors made by the student that affect the Pell student eligibility index.

Source: Quality in the Basic Grant Delivery System.

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- A 1978 GAO report stated that OSFA still had no system capability to verify interest payments. OSFA was relying primarily on staff reviews of lending institutions to identify overpayments.

In addition, in accordance with a procedures manual developed as part of that project, personnel reviewed all of the requests for payment in a three month period that were manually processed. They found that 97 percent of the requests were processed erroneously, resulting in $438,718 in overpayments and $37,207 in underpayments to lenders. It should be noted that the Department is currently working to ameliorate these problems.

Site Visits

During the site visits, some data were collected on lender and note owner fund control. The Student Loan Marketing Association (SLMA) places great emphasis on ensuring the fiscal integrity of its operations, including the following procedures:

- Lenders negotiating to sell loans to SLMA must check the documents they are submitting and in some cases must obtain a status confirmation for the students whose loans are being sold.
- Upon receipt of a package of loans for purchase, SLMA conducts both automated and manual checks. These checks include inspection of the promissory note for signature and defacement, determination that the proper interest rate is being charged, calculation of loan limits to ensure compliance with regulations, etc. Of these loans, approximately 1-2 percent are usually rejected.
- Within 60 days of purchase a status verification request is sent for each borrower.
- Semi-annual status verification requests are sent to borrowers for loans with in-school status.
- Before completing a warehousing agreement, SLMA ensures that the loans being offered as collateral meet both program requirements and acceptable fiscal standards.

The single largest problem cited by SLMA was the frequency with which students drop out of school without notification. When SLMA finally becomes notified of the status change, they must retroactively determine the date of termination, calculate the grace period, and, if it has been long enough, begin repayment processing. This procedure may require skip-tracing services to locate the student, and if these efforts are unsuccessful, SLMA may have to begin default proceedings. SLMA uses other procedures in addition to those listed above to ensure the integrity of their operations. Because of the extent of its operations and its status as the largest secondary market, SLMA procedures influence the practices of many lenders and note owners.

Other lenders interviewed noted problems related to fund control, citing their ability to track student status changes as the largest problem. In some cases, lenders also have problems ensuring that they have retained the documentation they need for submitting claims. Merchant's National Bank cited some of the issues that can make fund control difficult:

- Only about 20 percent of student loan recipients notify the bank of a change in their enrollment status, which might put their loan into grace/repayment status.
- This bank sells as many of their interim status loans as possible to SLMA, generally immediately before they go into repayment status. Their last sale took five months for SLMA to process.
- They have problems with institutions returning checks on a timely basis for students who withdraw from school; it sometimes takes up to one year.
- The volume of their transactions causes administrative error, most common of which is granting 7 percent loans which should be 9 percent or vice versa.
- In their state, the lender is penalized for late filing by the GA of requests for loan refunds (for both FISL and GSL).
- The six-month grace period is not enough time for required processing. If part of the grace period occurs in the fall, the lender is not notified of the change in status until it receives the institution's enrollment confirmation report.
- Enrollment confirmation reports from schools are increasingly more prone to error, because of too many requests from too many sources in too many formats.
- They have problems with the requirement to send out a repayment schedule 150 days before the first payment is due. Many students will sit out one quarter or semester with intention of returning to a status which is eligible for repayment deferment. Yet if the student has not responded to repayment schedule notice within 60 days after it is issued, pre-claims assistance must be requested. Once this happens, student is not eligible for other loans.

Student status reporting is also noted as a problem by many schools, since they are not always notified of changes in status by their students, they receive numerous requests for confirmation in varying formats, they are not always told when loans are sold, and confirmation requests are usually only sent out two or three times per year. All of these factors create confusion, and make it difficult for schools to keep lenders informed.

Chase Manhattan Bank also noted that it is difficult for them to keep track of and to respond to the multiple requirements of the different state agencies. In addition, these regulations are designed for lenders who operate on a smaller scale than they do, change frequently, are difficult to understand, and conflict with the regulations of other banking regulatory agencies. These problems make it difficult for Chase to comply with some requirements related to fund control, and to adjust their accounting systems to meet these requirements as well as those required by Chase policy. The Chase Student Loan Division includes a comptrollers office, whose staff backs up the actions of the loan servicers to ensure adequate accounting for funds. Lenders also expressed concern that the dependence on student reported data about previous loans and defaults may lead to extending credit to students who are not eligible, either in accordance with program requirements or the lender's internal policies. Lenders, schools, and GAs can only check this data against their own records, so students who do not report loans in other states may not get caught.

6.2.3 EFFECT BY ACTIVITY

Because lenders are not involved in the Pell or Campus-Based programs (with the exception of a few schools who make both GSL and NDSL loans), lender fund control is related only to the GSL program.

GSL Component

Pre-Application Subsystem

Many lenders note that the frequent changes in program rules and regulations can make fund control difficult, because of the need to adapt quickly to requirements that are not always disseminated in a timely and understandable fashion.

Student Application, Eligibility Determination, and Benefit Calculation Subsystems

Errors made by students, schools, lenders and GAs in collecting application data and determining eligibility can result in loans to students who are ineligible or that exceed statutory loan limits. Estimates of error rates on Pell applications indicate that these sorts of errors are probably relatively frequent. Reliance on self-reported data from the borrower about previous loans and defaults can also be a problem; schools, lenders, and GAs can only check this data against their own records, so may not catch students who have loans in other states. Thus loans may be made to students that do not comply with program requirements, or with the policies of individual lenders. Lack of information on defaults can be particularly problematical, since these borrowers may again default, forcing the lender to pursue expensive collections procedures. In addition, storing and retaining the documentation acquired during the application process to provide an audit trail and documentation for claims can be difficult. In the cases where loan servicers do not trust the data in the automated system, the paper files may be retrieved and documents may be misplaced. SLMA and other note owners protect themselves from this problem by microfilming their files. However, some note owners do not like or cannot afford this expensive procedure. As noted under Certainty of Funds, approval of loan guarantees does not seem to be a problem.

Fund Disbursement Subsystem

Fund control related to disbursement of loans does not seem to be much of a problem, unless the student withdraws from school. In the latter case, loan cancellation may be delayed or skip-tracing services may be needed to locate the borrower. Lenders do not note many problems related to interest and special allowance payments, although, as mentioned in the previous section, the Department's systems for processing these payments has been prone to error in the past.

Account Reconciliation Subsystem

Enrollment status reporting creates the most difficult fund control problem for lenders, since, as noted earlier, these reports are not timely, accurate and complete. It becomes difficult for lenders to be aware of status changes that signal entry into the grace/repayment period. Loan sales, deferments and forbearance can further complicate the tracking of loan status. For example, at Chase Manhattan Bank, changes in loan status require transferring the borrower's file between three computerized systems. Claims and collections do not seem to create a large fund control problem, as long as due diligence requirements are followed and the claim is adequately documented. Some problems related to this activity are reported under 6.2, "Certainty of Funds." In addition, the OSFA Division of Certification and Program Reviews notes that, in their reviews of FISL lenders, they almost always issue findings that require corrective actions. They also note that commerical lenders tend to have fewer deficiencies than organizations whose primary credit activities are for student borrowers. The probability that an individual lender will be reviewed during a given year is very low.

6.4 AVAILABILITY OF INFORMATION (LENDERS/SECONDARY MARKETS)

6.4.1 OVERVIEW

Definition

Availability of information refers to the ability of the delivery system to generate the information needed by lenders and secondary markets. This effect includes information on program features as well as on delivery system procedures. It also includes information that is needed as an input to the delivery system such as data on student enrollment status.

Summary

There is little data on this effect from the perspective of lenders and note owners (see also 6.2 "Certainty of Funds" and 6.3 "Fund Control"). During the site visits, a few aspects of this effect were noted:

- It is difficult to track student status for the purpose of determining entrance into repayment.
- Information regarding changes in the programs or procedural requirements is not always accurate, timely, complete, consistent, and understandable.
- Different headquarters and regional ED personnel give different answers to the same question.
- Active state guarantee agencies (GAs) tend to decrease problems related to information availability by disseminating information and providing early notification of possible changes.
- Lenders do care about the lack of a national data base on student loan defaults.

6.4.2 FINDINGS

Site Visits

This effect is difficult to assess objectively because it is highly dependent on the lender's perception of the adequacy of the information that is available, and ability to understand the information it receives. No large-scale study has been done of the availability of information from the perspective of lenders. However, comments were solicited during the site visits about the aspects of information availability that are troublesome from the point of view of the lenders, servicing agencies, and secondary market participants interviewed. The previous section summarizes the data that were collected, and the following section presents this data in greater detail by activity.

6.4.3 EFFECT BY ACTIVITY

With the exception of a few schools who are lenders in both the NDSL and GSL programs, lenders are involved only in GSL. This section identifies the activities that contribute to the effect "availability of information."

GSL Component

Pre-Application Subsystem

This subsystem is the most important determinant of the availability of information, because it encompasses dissemination activities. Lenders interviewed noted problems related to the dissemination of information from the Department of Education. They often receive contradictory responses to the same question from different headquarters and regional personnel. In addition, the information received is not always timely, accurate, and complete. Lenders are frequently not forewarned of program and procedural changes that will require changes in their systems, requiring costly last-minute adjustments. The instructions they do receive regarding these changes are not always understandable, requiring guesswork as to the related systems requirements. Lenders seem to prefer to receive information in the form of instructions, which identify the specific procedures to be followed. In addition, the relationship between GSL requirements and the requirements of other regulatory agencies is not noted in the information that is received.

Active guarantee agencies can help alleviate some of these problems. For example, the Vermont Student Assistance Corporation (VSAC) provides information on the impact of possible upcoming changes. Lenders who are active in many states also have trouble integrating the information they receive on the particular policies and practices of each GA.

SLMA has been very active in advertising its programs and has been one of the few note owners which actively participates in the policy development process. However, the receipt of information on policy and regulatory development may become more important to lenders because some of those interviewed expressed interest in becoming more involved in these processes over time. This information could also help forewarn lenders about possible upcoming changes, as noted earlier.

Most lenders are not involved in many information dissemination activities. Students tend to initially contact their schools for information about the program. Some lenders do disseminate information on the availability of student loans, and all lenders must answer inquiries from borrowers once the loan is originated. For example, Chase Manhattan Bank has a Customer Service unit that devotes most of its time to answering inquiries.

Because all of those interviewed are already participating in the GSL program, no information was collected on the availability of information related to the eligibility process for lenders.

Student Application, Eligibility Determination, and Benefit Calculation Subsystems

Lenders did not note many information problems related to these subsystems. Incomplete applications can be troublesome for lenders, because of the need to contact the school or the student for corrections. However, no data on the frequency of this occurrence were available, although state agencies did note that only a small percentage of the applications they receive are incomplete. Lenders also noted that they would like to have a national data base on student loan defaults, since they would prefer not to extend further credit to these students. The infrequency of guarantee disapproval may be the reason for the lack of comments on information needs regarding this activity.

Fund Disbursement Subsystem

Lenders did not note any information needs related to the issuance of promissory notes, the disbursement of loans, note transfers and servicing contracts, and interest and special allowance payments.

Account Reconciliation Subsystem

One of the largest problems relating to the availability of information for note owners and services is student enrollment status reporting. This information is needed to determine the beginning of the grace period, and subsequently, the repayment period. However, lenders sometimes do not get this data until after the borrower should have entered repayment, and have to process the related paperwork retroactively, which can threaten the integrity of any related claims. For example, a student may withdraw without notice, or immediately after the latest school confirmation report was completed, leading to significant time lags prior to lender notification of change in status. Some lenders contact the schools directly (rather than waiting for information from the relevant GA) because of the magnitude of this problem. A few lenders also noted that the schools themselves do not seem to always have accurate data on enrollment status.

Lenders did not note other information needs related to repayment, claims, and collections. Most have access to commercial skip-tracing services to track delinquent borrowers, and many believe these services are superior to those operated by ED. They do have problems related to bankruptcy proceedings. The judge does not always know that some of the filers' debts are student loans, and so does not follow the criteria for dealing with these loans. Since lenders often do not receive notice of these proceedings prior to completion, they are faced with the issue of dealing with incorrect discharge of student loans.

No other information needs related to reporting, audits, and program reviews were noted.

6.5 OTHER AID PROGRAMS (LENDER/SECONDARY MARKETS)

6.5.1 OVERVIEW

Definition

Other aid programs refer to the interactions between the delivery system for the Pell, GSL and Campus-Based programs, and all other student aid programs.

Summary

In addition to the GSL state agency program, some lenders are also involved in the PLUS (auxiliary loans to parents and students), FISL (Federal Insured Loans), and Health Education Assistance Loans and Health Profession and Nursing Student Loans. During fiscal year 1981, FISL represented 5.4 percent of total GSL loan volume, state guaranteed loans represented 94.2 percent, and PLUS represented 0.4 percent. Some lenders also handle other types of student loans offered by corporations or schools. The FISL program is similar enough to the state agency program for the two types of loans to be processed by the same system, as if the Federal government was another guarantee agency. However, the problems noted under the previous effects, relating to the diversity of agency policies and procedures, also relates to FISL. PLUS is a relatively new program; most lenders interviewed are still considering involvement in these loans. However, as this program grows, it may lead to some problems related to the integration of the GSL and PLUS systems. The health profession loan programs are significantly different from the GSL program; lenders who are involved in both programs generally run two entirely separate systems.

No additional findings are available on this effect. Because the effect does not specifically relate to particular activities, no breakdown by activity will be presented.

CHAPTER SEVEN
APPLICANT/FAMILY EFFECTS

7.1 APPLICATION COST (APPLICANTS/FAMILIES)

7.1.1 OVERVIEW

Definition

Application costs are actual expenditures incurred by the applicants and/or their families for application submission and processing. This effect includes payments to processors and mailing costs.

Summary

Theoretically, there is no cost to the applicant or to his or her family to apply for Title IV student assistance programs, other than for postage to submit the form to a processor. Two processors, the Pell Grant central processor and the Pennsylvania Higher Education Assistance Agency (PHEAA), charge no processing fee at all. If the applicant desires only Pell Grant consideration, desires only Pell and PHEAA assistance, or if all institutions and/or agencies from which assistance is being sought will accept either the Pell or PHEAA results, then processing is indeed free of charge.

If, however, the applicable state agency or any one of the institutions from which assistance is being sought require financial data for other sources of aid to be processed by one of the other need analysis services, it may be to the applicant's advantage (from a forms completion standpoint) to also use that processor as a vehicle to request Pell Grant consideration at the same time. Pell consideration can be requested via any one of three additional processors, without any additional cost to the applicant (the Federal government pays a transmittal charge). These other processors. the American College Testing Service (ACT), the College Scholarship

Service (CSS), and the California Student Aid Commission (also processed by CSS) assess a processing fee ranging from $6.00 to $6.50 for the first school or agency to receive the analysis results and $3.00 to $4.50 for each additional school or agency transmittal requested at the same time.

In 1982-83, 37 percent of all Pell applications were processed by the central processor, 15 percent transmitted from by ACT, 44 percent were transmitted from CSS, and 4 percent were transmitted from PHEAA. These same forms are generally acceptable for consideration of Campus-Based program eligibility as well. A student not applying for Pell consideration would submit the ACT, CSS, PHEAA (from Pennsylvania residents) or SAAC (for California residents) application form to receive Campus-Based consideration. If a GSL applicant has not applied for Campus-Based assistance, the institution may request submission of a CSS or ACT form, or will use ED-provided tables to calculate the Expected Family Contribution. Reportedly, some institutions and lenders are beginning to charge their own fees for providing certain services related to the application process, but no data were obtained on the frequency or magnitude of these charges.

7.1.2 FINDINGS

Processor Fees

The costs of applying for aid include the time costs of collecting the necessary data and filling out the application, as well as any processing fees. Estimates of time are included under "applicant time." This effect, application cost, considers only the mailing cost (normally 40¢ per submission) and fees paid for processing Title IV applications. There is no fee associated with filing the Federal or PHEAA applications, which can be used to apply for some institutional and state programs, as well as for the Pell program. The following charges apply to the three other needs analysis services authorized to collect data for the Pell Grant program:

American College Testing Service (ACT)

Fees: $6.00 for the first school, $3.00 for each additional school when requested at the same time, $4.00 to correct the application.

College Scholarship Service (CSS)

Fees: $6.50 for the first school, $4.50 for each additional school when requested at the same time.

Student Aid Application of California (SAAC - also processed by CSS)

Fees: $6.50 for the first school, $4.50 for each additional school when requested at the same time.

These fees are specifically for transmittal of data and results to institutions and agencies, for aid programs other than Pell. Transmittal of data to the Pell Grant central processor is paid by ED, and thus is free to the applicant who chooses to use one of these alternative processors due to requirements of his/her state agency or of the institution(s) he or she wishes to attend. Some institutions provide in-house need analysis services rather than, or in addition to, accepting the results of one of the national, regional, or state processors. Data is collected in a variety of ways, including the forms identified above, or the institution's own form. Some of these institutions charge a fee for this service, while others provide it free of charge. No data regarding the frequency of this practice or the related charges assessed were available.

"Pell Grant Application Processing System: Request for Proposals,"
U.S. Department of Education, December 1982.

The impact of the application costs on applicants and their families depends not only on the fees charged by the different application processors, but also on the relative use made of each. In 1982-83, ACT processed approximately 850,000 need analysis forms, CSS processed just under 2,500,000 forms, and PHEAA processed 241,140 forms. Data are also available on the number of Pell applications processed by each Multiple Data Entry (MDE) processor. These data are shown in Figure 7.1-1. As is illustrated by this data, most students who apply for other forms of aid also apply to the Pell program.

Figure 7.1-1

APPLICATION PROCESSING STATISTICS - PELL PROGRAM

	Number of Applicants		Percent of Total	
	1981-82	1982-83	1981-82	1982-83
Central Processor	1,870,258	2,107,325	35%	37%
ACT	833,269	832,355	15%	15%
CSS	2,504,493	2,479,919	46%	44%
PHEAA	232,243	237,127	4%	4%
TOTAL	**5,440,263**	**5,656,726**	**100%**	**100%**

Source: Pell Grant Application Processing System, Application Volume as of May 1, 1982 and 1983, respectively.

7.1.3 EFFECT BY ACTIVITY

Pell Grant Component

Student Application Subsystem

If the student submits an application only to the Federal Pell central processor, no costs are incurred except for mailing costs. PHEAA also does not charge for application processing; thus, roughly 40 percent of the Pell Grant applicants pay no processing fee. Use of the CSS, ACT, and SAAC forms requires payment of a $6.00 to $6.50 fee for the first school, and $3.00 to $4.50 for each additional school. In other words, about 60 percent of the Pell applicants pay $6.00 or more in order to be considered for programs other than Pell Grant without the need for submission of an additional need analysis form.

GSL Component

Student Application Subsystem

No fee is usually charged for GSL applications, unless the student is also applying for Pell or Campus-Based aid, or one of the applications mentioned above is required by the institution involved to assess need. There is apparently a trend towards charging a GSL processing fee by schools and lenders, but no data were available on the frequency of this occurrence.

Student Benefit Calculation Subsystem

Many lenders deduct the 5 percent loan origination fee and an insurance fee of up to 1 percent (if required by the guarantee agency) from the face value of the loan. Some GAs consider a portion of the latter fee as payment for guarantee processing. The former fee is subtracted from Federal payment of interest and special allowance subsidies to the lenders.

Campus-Based Component

Student Application Subsystem

Many schools use one of the processors discussed under the Pell component to analyze need for Campus-Based aid. ACT sends reports to 4,300-4,400 institutions and agencies; CSS provides results to almost 7,500 institutions and agencies; PHEAA results are available to all institutions in Pennsylvania. Approximately 120 schools actively use PHEAA data and many also accept ACT and/or CSS-provided data as well. Again, there is no charge for Pell central processor or PHEAA services. The charge to students for ACT, CSS, and SAAC is $6.00 to $6.50 for the first school, and $3.00 to $4.50 for each additional school requested at the same time.

7.2 APPLICANT TIME (APPLICANTS/FAMILIES)

7.2.1 OVERVIEW

Definition

Applicant time is the total amount of time an applicant/recipient spends on delivery system activities, including time spent filling out forms, responding to notifications, and receiving or submitting payments. In addition to the application costs discussed earlier, these time expenditures represent the cost of applicant/family participation in the programs.

Summary

The estimate from the Rehab/Macro Study for the time required to complete the Pell application was one hour. One hour is also a reasonable estimate for the time required to complete the Campus-Based need analysis documents. The fact that the average time to complete the application was fairly consistent across the three alternative Pell application forms tested signifies that applicant time is not sensitive to marginal changes in the application. The SISFAP student questionnaire found that students reported nearly 3.2 hours to comply with Pell validation requirements. Data from the site visits and the SISFAP institution questionnaire indicate that the activities associated with loan repayment are not time-consuming unless the loan is in default, in which case a number of contacts will be made (or attempted) with the borrower.

7.2.2 FINDINGS

"Field Testing 1982-83 BEOG Application Forms: Final Report," Rehab Group, Inc. and Macro Systems, Inc., U.S. Department of Education 1981.

Alternative versions of the 1982-83 Pell Grant application were field tested by Macro/Rehab on a sample of 380 applicants. Completion time was measured and averaged for all test applicants, and for various applicant subgroups. Two measures were used: time of the student/applicant, and total time (including time of other family members spent locating and recording tax returns and other data.)

Three separate forms were field tested in the study:

- Form I - Current Pell application form (with minor modifications to reflect changes in legislation);
- Form II - Split short form (separate forms for independent and dependent applicants, shortened instructions, and fewer data elements); and
- Form III - Short form (one form for both independent and dependent students, shortened instructions, and elimination of data elements not essential to calculation of the eligibility index).

Results are summarized in Figure 7.2-1. Across all student groups, student time averaged 39 minutes. Depending on the version of the form, student time varied from 30 minutes to 44 minutes. Total time averaged 61 minutes, with a range from 47 to 68 minutes depending on the version of the form tested. These results agree with our site visit findings; the financial aid administrators at the sites visited estimated that it takes applicants and their families approximately one hour to complete the relevant documents.

Figure 7.2-1

AVERAGE APPLICATION TIME, BY STUDENT SUBGROUP

Subgroup of	Mean Number of Minutes to Complete:							
	Form I (N = 152)		Form II (N = 120)		Form III (N = 118)		All (N = 390)	
Students	Student	Total	Student	Total	Student	Total	Student	Total
All Cases	44	68	30	47	42	65	39	61
School Level								
Secondary	49	83	32	56	47	77	45	74
Postsecondary	40	55	28	41	35	50	35	49
Status								
Dependent	47	80	30	56	45	73	43	72
Independent	38	42	30	36	34	44	33	40

Source: Field Testing of BEOG Application Forms, 1982-83, pg. 31.

Although the time required to complete Form II (split short form) was less than Form I (current form), there was not a large time difference between the two forms. This indicates that applicant time is not particularly sensitive to the form of the application and that marginal changes in the application format probably do not significantly affect applicant time. This data leads to the conclusion that large changes in the application would be necessary to significantly effect applicant time.

"A Study of Program Management Procedures in the Campus-Based and Basic Grant Programs (SISFAP)." Applied Management Sciences, Inc., U.S. Office of Education, May and September 1980.

SISFAP consisted of a series of questionnaires and other data collection efforts, conducted in 1978-79 and followed up in 1979-80, designed to provide information on the provision of student financial aid. Of interest in analyzing applicant time are responses from both the student questionnaire (a representative sample of 10,901 students in postsecondary institutions) and the institution questionnaire (a sample of 173 postsecondary institutions).

The SISFAP student questionnaire asked students who had been requested to verify information provided on their Pell Student Eligibility Report for 1979-80 how much time they spent in obtaining this information. The mean response was 3.2 hours with a mode of 2 hours, indicating a substantial time cost incurred in complying with Pell validation. The figures reported in SISFAP appear on the high side. One reason for this is that there were several individuals who reported time of 15 hours or more for obtaining the required information (these may have been students with special problems, such as having to obtain a tax form from a recalcitrant parent) and these responses pushed up the mean. Another reason for the high mean may be that students reported the elapsed time it took them to get the information, not just the time they spent actively obtaining the required data.

An important aspect of applicant time is the extent to which students do not apply for financial aid because the application was too long or too imposing. This question was addressed in the SISFAP student questionnaire with the results presented in Figure 7.2-2. The results indicate that a significant minority of non-applicants stated that one of the reasons that they did not apply for financial aid was that the application process was too long.

Besides completing applications and other activities associated with applying for financial aid, another area of the delivery system where the applicant time

FIGURE 7.2-2

PERCENTAGE AND NUMBER (WEIGHTED) OF NON-APPLICANTS WHO STATED THAT THEY DID NOT APPLY FOR FINANCIAL AID BECAUSE THE APPLICATION PROCESS WAS TOO LONG BY DEPENDENCY STATUS AND INCOME

(1979-80)

DEPENDENT

Under $6,000	$6,000-$11,999	$12,000-$17,999	$15,000-$23,999	$24,000 + Over
10%	7%	11%	12%	4%
54,005	3,040	20,244	47,286	51,418

INDEPENDENT

Under $3,000	$3,000-$5,999	$6,000-$8,999	$9,000-$11,999	$12,000 + Over
6%	9%	7%	5%	5%
10,020	10,134	7,140	4,451	18,772

Overall Percentage: 7%

Total N: 227,171

Source: SISFAP Student Questionnaire.

becomes important is in dealing with the responsibilities required under the loan programs. Unlike grants where the recipients' responsibilities end, for the most part, with the disbursement of aid, loans require time expenditures well after the recipient leaves school. While there is no readily available information directly assessing the time required to comply with the various aspects of the NDSL and GSL loan programs (e.g., repayment, deferment, default, etc.), inferences to the time required can be made by looking at the procedures employed by institutions and lenders in servicing loans. The SISFAP institution questionnaire asked several questions concerning institutions' procedures regarding the NDSL program. The responses are provided in Figure 7.2-3.

The results indicate a fair amount of borrower contact initiated by institutions (usually by mail), although a direct translation into time spent by borrowers as a result of these procedures is not possible. It is likely that each of these contacts requires only a small time expenditure on the part of the borrower.

"Quality in the Basic Grant Program: Stage One," Advanced Technology, Inc. and Westat, Inc., U.S. Department of Education, 1982.

Stage One of the Quality Control Study consisted of numerous data collection efforts designed to estimate error in the Pell Grant program. As part of the study, 4,000 Pell Grant recipients and their parents were interviewed. These interviews asked both recipients and parents to list the Pell application items with which they had trouble. While the responses to this question (See Figure 7.2-4) do not provide a direct measure of applicant time, they give an indication of the difficulty of the application and of which specific items were most difficult to complete for recipients and parents. Figure 7.2-4 shows that while no particular application item stood out in terms of its difficulty, there were a number of questions with which 5 to 10 percent of the respondents had difficulty.

"List of Active Reports Approved Under the Federal Reports Acts," Office of Postsecondary Education, U.S. Department of Education, March 1983.

This document contains a list of the reports currently being submitted to the Department of Education with an estimate of the hours required to complete each form. The estimates are usually made by the branch chief originating the form, and hence may not be precise. Figure 7.2-5 provides the estimates for forms completed

FIGURE 7.2-3

PERCENTAGE OF INSTITUTIONS EMPLOYING CERTAIN PROCEDURES IN SERVICING NDSL, BY INSTITUTION TYPE (1978-1979)

Institution Procedure	Four-Year Public	Four-Year Private	Two-Year Public	Two-Year Private	Proprietary
Borrowers are contacted by letter three times during the grace period	80%	70%	72%	88%	75%
Borrowers are contacted by telephone three times during the grace period	20%	90%	22%	38%	13%
Borrowers are contacted by telegram three times during the grace period	6%	0%	0%	13%	6%
Borrowers are mailed a copy of the promissary note, and two copies of their repayment schedule and are requested to sign and return one copy of the repayment schedule	31%	39%	22%	38%	38%
Other	18%	43%	39%	13%	31%

Source: SISFAP Institutional Questionnaire

TABLE 7.2-4
REPORTED DIFFICULTIES ON VARIOUS ITEMS ENCOUNTERED IN FILLING OUT THE APPLICATION FORM[1]
(1980-81)

	Percent of Parents Reporting Difficulties	Percent of Students Reporting Difficulties
Citizenship	0	9
Marital Status (Student)	0	0
Bachelor's Degree	0	0
Live with Parents, 1979, 1980	3	5
Exemption, 1979, 1980	1	2
Support, 1979, 1980	6	7
Household Size	2	2
Number in Postsecondary Education	1	2
Marital Status (Household)	2	2
Filed IRS	1	3
Estimated Taxes	2	3
Number Exemptions	2	3
Adjusted Gross Income	2	6
Taxes Paid, 1979	3	4
Social Security Income, 1979 and Other Nontaxable Income, 1979	4	3
Earned Income (Head of Household) and Earned Income (Spouse)	4	4
Medical/Dental Expenses	4	4
Tuitions	3	2
Cash/Savings/Checking	5	2
Home Value and Home Debt	10	3
Investment Value and Investment Debt	2	1
Business/Farm Value and Business/Farm Debt	3	1
VA Educational Benefits, Monthly and VA Number of Months	1	1
Social Security Income, 1980 and Social Security Number of Months, 1980	2	1
Income, 1979 (Student and Spouse)	5	6
Assets (Student and Spouse)	2	1

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[1] Data are rounded to nearest percent, so a zero may indicate a small proportion of applicants/families.

Source: Quality Control Study

FIGURE 7.2-5

AVERAGE RESPONSE TIME FOR FORMS COMPLETION

Annual Report	Responses	Time per Response
Physician's Certificate of Borrower's Total and Permanent Disability for Student Loan Program	5,000 (FISL only)	20 minutes
Request for Payment of 1983-84 Pell Grant Award (ADS) and Request for Additional Payment (ED Form 304 and 304-1)	181,560	20 minutes
Federal Insured Student Loan Application	750,000	45 minutes
Application for Federal Student Aid	2,000,000	70 minutes
Special Condition Application for Federal Student Aid	175,000	65 minutes
Student Aid Report (SAR)	10,275,000	11 minutes[1]

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[1] 17 minutes when only SARs being corrected are included.

Source: List of Active Reports Approved under the Federal Reports Acts as of March 31, 1983.

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the applicant/family. While the FISL forms are not pertinent to a large number of students, the estimates presented can be used as an approximation of the time required to complete similar forms under the GSL (state agency) and NDSL programs.

Site Visits

The site visits also yielded data on the number of borrower contacts during repayment or delinquency. While the amount expended by the student per contact is probably small, the sum of these activities over the average ten-year repayment period or 120 to 180-day collection period prior to default may be large. These data are presented in more detail in the following section.

7.2.3 EFFECT BY ACTIVITY

The following section organizes the data by delivery system subsystem. Refer to the previous section for more information on the data which are presented below. Within each subsystem, a student may spend some time discussing aid-related issues with the school's financial aid administrator. However, no data on the time expended on counseling are available.

The Pell Grant Component

Pre-Application Subsystem

During this period, students expend time learning about the programs. However, no data are available on the time expended on these activities.

Student Application Subsystem

Applicants and their families expend approximately one hour collecting data and filling out the Federal application form or the MDE need analysis document. The Federal Special Condition form requires an additional hour. Additional time may be spent responding to follow-up requests to "clean up" the information provided originally, the exact burden is dependent upon the degree of incompleteness.

Student Eligibility Determination Subsystem

If a student is flagged for validation, an average of 3.2 hours is expended on related activities.

Fund Disbursement Subsystem

Pell ADS recipients expend approximately 20 minutes on the Request for Payment forms two to three times per year. A few minutes may also be expended on tracking or receiving disbursements.

The GSL Component

Pre-Application Subsystem

During this period, students expend time learning about the program. However, no data are available on the time expended on these activities.

Student Application Subsystem

The average time expenditure for the FISL application is 45 minutes. Because state agencies use a similar form, this estimate is probably applicable to the loan application for the state agency program also. If a needs test is required or the student is applying for other types of aid, the student is required to fill out supplemental forms, which would require an additional hour or so.

Student Eligibility Determination Subsystem

If a GSL applicant is chosen by the institution for validation, it may require a similar expenditure of time as Pell validation, but the exact amount would depend on the type of verification requested by the school and the number of data items to be validated.

Student Benefit Calculation Subsytem

In cases where the institution does not help eligible students locate a lender who will approve a loan, this activity may require significant time expenditures by the applicant. However, no data are available on this aspect of this activity. In some states such as New York, the student must also have a face-to-face interview with a representative of the lending institution, which generally requires less than an hour, plus travel time.

Fund Disbursement Subsystem

The time spent receiving, reading and signing the promissory note is approximately 15 minutes or less. The receipt of loan disbursements probably requires negligible time expenditures. While the student is in school, some loan servicers such as those used by the Student Loan Marketing Association (SLMA) send out annual status reports and request the student to update the relevant information if necessary. It is likely that time expenditures related to this subsystem are not more than an hour for each loan received.

Account Reconciliation Subsystem

In states where it is required, signing and returning the repayment schedule to the note owner only takes a few minutes. Loan repayment involves spending a few minutes each month filling out a check in response to a bill or to the dates in a coupon book. Providing evidence of deferment status can be difficult according to people interviewed in site visits, since the borrower may have to remind his employer or physician several times to provide the required documentation. The FISL physican's statement regarding total and permanent disability takes approximately 20 minutes to complete; it seems reasonable to assume that it takes the borrower approximately the same time to fill out statements regarding deferment. While the time expenditures for borrowers who make their payments on a timely basis are no more than a few minutes each month, those who become delinquent place themselves in a much different situation. Delinquent borrowers are contacted frequently, either in writing or by phone, until the delinquency is cured or a claim is paid. Unless they completely ignore or evade these contacts, the delinquent borrowers can spend as much as two to three hours a month reading and responding to written notices or talking to the lender or collection agency on the phone. Since each of these cases is unique, however, the time actually spent varies considerably. Loan consolidation can be a fairly time-consuming process for the borrower, although no statistics are available on the precise amount of time expended.

The Campus-Based Component

Pre-Application Subsystem

During this period, students expend time learning about the programs. However, no data are available on the time expended on these activities.

Student Application Subsystem

The Federal application is sometimes used for Campus-Based programs. The need analysis documents used for the Pell and/or Campus-Based programs are relatively similar to the Federal form. Thus, the average time to collect the information and complete need analysis documentation for Campus-Based consideration would be approximately one hour. Many schools also require that students complete supplemental forms, which would add approximately 30 to 60 minutes to applicant time for each school requiring additional forms.

Student Eligibility Determination Subsystem

If a Campus-Based applicant who was not already validated for Pell purposes is chosen for validation, it may require a similar time expenditure as Pell validation, but the exact amount of time would depend on the type of verification requested by the school and the number of data items to be validated.

Fund Disbursement Subsystem

Signing and returning the award notice (for all Campus-Based aid) and the promissory note (for NDSL) requires only a few minutes. The amount of time required to obtain a CW-S job depends on the amount of assistance offered by the school, for which no data are available. The receipt of disbursements usually requires only small time expenditures, since payments are often applied directly to the student's account at the school.

Account Reconciliation Activity

NDSL deferment or cancellation activities probably require similar expenditure of time on the part of the borrower to provide evidence of eligibility as is spent on GSL deferments. Loan repayment requires small time expenditures, to respond to receipt of the repayment schedule (if required) and to send in checks. If a payment is delinquent, time expenditures are similar to those for GSL collections.

7.3 TURNAROUND TIME (APPLICANTS/FAMILIES)

7.3.1 OVERVIEW

Definition

Turnaround time is the total elapsed time between the initial submission of an application and supporting documentation and receipt of the initial disbursement of grant, loan, or subsidy funds. This effect incorporates processing time (at the institution) as well as processing time for other participants. It also includes the time required for the application to reach the institution and the funds to reach the student. This effect is of particular importance because of the need for the student to have funds in hand by the due date for related expenditures, and because it may affect enrollment decisions.

Summary

Turnaround time is difficult to estimate precisely, in part because of gaps in the data, and in part because it is highly dependent upon the time of year when the application is submitted, the completeness of the application, and whether or not the application requires correction or validation. On average, "clean" Pell applications require 20 days for central or MDE processing, and about 7 to 15 days for institutional processing. Disbursement, in general, immediately follows that processing or the beginning of the enrollment period, whichever comes later. Corrections and validation can lengthen these time periods significantly. Total GSL turnaround time seems to average around two months. Campus-Based turnaround time from application to award notification can be as short as five weeks or as long as 20 weeks or more, depending upon the time of submission, the existing backlog of applications, the institutional practices regarding "rolling" vs. common notification, and the length of time between notification and the beginning of the enrollment period. Because of the program-specific requirements for disbursement of Campus-Based funds, the time from award notification to final disbursement can vary considerably. See also 5.5 "Processing Time."

7.3.2 FINDINGS

Central Processor Statistics

The Pell central processor is required to monitor and report statistics on turnaround time. The central processor is generally processes initial applications within 20 calendar days of receipt, and processes corrections within seventeen calendar days of receipt, during peak periods with normal processing backlogs. Due to a recent change in contractors, this turnaround time is expected to decrease for the coming award year. In 1982-83, the Pell processor application volume was approximately 2,107,300 or 37 percent of all Pell applications.

Turnaround time for the applicant/family is not only dependent on the time required to process each application but also on the number of transactions submitted per applicant. Figure 7.3-1 presents data from the central processor on the number of transactions processed per applicant in 1982-83. In 1982-83, approximately 70 percent of all applicants had only one transaction and 91 percent of all applicants had two transactions or less. However, there are a small percentage of applicants who enter the system numerous times; for them the accumulated turnaround time associated with the Pell application system is extremely lengthy.

"A Study of Program Management Procedures in the Campus-Based and Basic Grants Programs (SISFAP)," Applied Management Sciences, Inc., U.S. Office of Education, May and December 1980.

SISFAP consisted of a series of questionnaires and other data collection efforts, conducted in 1978-79 and followed-up in 1979-80, designed to provide information on the provision of student financial aid. Of interest in analyzing turnaround time are responses from the institution questionnaire, a sample of 173 postsecondary institutions.

In addition to the processing time noted above, another aspect of turnaround time in the Pell program is the time between the submission of the SAR and the students' notification of their award amount. The institution questionnaire specifically asked this question and the responses shown in Figure 7.3-2 were received.

The majority of institutions stated that one week after receipt of the SER (now the SAR) the student was notified of their award amount. Over 90 percent of institutions processed the SERs in less than four weeks, with only a handful of schools reporting processing times of over four weeks. The processing times proved

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FIGURE 7.3-1

NUMBER OF TRANSACTIONS PER PELL APPLICANT FOR 1982-83 AWARD YEAR

Number of Transactions	Total	Eligible	Ineligible	Rejected	Validated
01	3,578,968	2,113,166	1,098,559	367,243	992,946
02	1,023,723	782,399	184,039	57,285	87,638
03	319,244	256,905	45,519	16,827	21,383
04	92,089	75,657	10,949	5,483	5,691
05	27,157	22,468	2,981	1,708	1,536
06	8,005	6,628	798	579	357
07	2,613	2,214	255	234	107
08	866	703	82	81	32
09	279	266	23	30	7
10	115	89	12	14	3
11	39	32	3	4	2
12	22	19	0	3	1
13	8	5	1	2	0
14	8	6	0	2	0
15	4	3	0	1	0
16 +	4	2	0	2	0
Total	5,053,144	3,260,432	1,343,214	449,498	1,109,703

Source: Central Processor statistics.

FIGURE 7.3-2

NUMBER OF WEEKS BETWEEN THE SUBMISSION OF THE SER AND STUDENT NOTIFICATION OF THEIR AWARD AMOUNT, BY TYPE OF INSTITUTION
(1978-1979)

Weeks	Four-Year Public	Four-Year Private	Two-Year Public	Two-Year Private	Proprietary	Total
1 Week	51%	59%	50%	67%	64%	57%
2-4 Weeks	42%	33%	35%	22%	36%	36%
5-7 Weeks	2%	0%	8%	0%	0%	4%
8-10 Weeks	2%	0%	8%	0%	0%	2%
Over 10 Weeks	2%	2%	0%	0%	0%	2%

Source: SISFAP Institutional Questionnaire Tabulations

relatively consistent among institution types, but two year public schools did seem to take longer, on average, than the other types of schools. It should be noted, however, that this study pre-dates the expansion of validation requirements, which have increased turnaround time.

7.3.3 EFFECT BY ACTIVITY

As part of this project, a number of site visits were conducted at educational institutions, lenders, and state guarantee agencies (GAs). Turnaround time estimates were obtained for many stages of the process. These estimates are reported below, along with the estimates noted above, for each relevant subsystem. While the site visit participants do not constitute a statistically valid sample generalizable to all institutions, lenders, and GAs, they do provide "ballpark" impressions of the turnaround times commonly experienced by students. Impressions of turnaround time have also been collected through interviews with knowledgeable financial aid administrators and officers of the National Association of Student Financial Aid Administrators (NASFAA).

In general, turnaround time at various stages of the process will depend on outcomes at each step (e.g., whether or not discrepancies are identified by validation) specific to each application. Wherever possible, alternative turnaround time estimates are presented for each stage. All turnaround time estimates at financial aid offices, ED, and the processors may also be greatly increased by backlogs forming at peak processing times, or by late decisions by the Federal government. Turnaround time will also be affected by the degree to which the school integrates application processing across programs.

Pell Grant Component

Student Application, Eligibility Determination, and Benefit Calculation Subsystems

Student applications may be mailed directly to the central processor, to an MDE processor (if application is for multiple forms of aid), or to the institution (which may scan-edit and copy the application to be forwarded to the appropriate processor). Following processing, the student is sent a Student Aid Report (SAR), requesting additional information or reconciliation of an edit discrepancy, informing the student that he or she is ineligible, or providing a Student Eligibility Index (SEI), which is one component of the actual award computation. According to the central processor contract, turnaround time must not exceed 20 calendar days, although exceptions have been granted. Transmittal time for the application from the student to the processor, and for the SAR from the processor to the student, adds one-half week at each end, for a total of four weeks' turnaround time for the student. Applications submitted to an MDE and then to the central processor take about fifteen days for processing from the time of submission to when the SAR is generated. Submission to the institution beforehand adds about one week, but eliminates some errors that might increase turnaround time "downstream" in the process.

Upon receipt of the SAR by the institution, eligibility can usually be determined quickly by inspection of the SAR and institutional data, although it takes considerable time to pull together the necessary documents. If corrections are needed, time is required for the student to correct the application; this time ranges from "negligible" to one to two weeks if the student must request and receive information from his family in a distant location. Once corrections are submitted, turnaround time averages two to three weeks; up to one week for transmittal of the correction to the processor, approximately seventeen days at the processor, and up to one week for transmittal of the SAR to the student, and from the student to the school. If errors remain, this process may be repeated.

The returned SAR may tell the student that he or she has been selected for validation. Under a "best case scenario" described by financial aid administrators, the student being validated will require up to seven to ten days to gather the necessary documentation and deliver it and the SAR to the financial aid office. Depending on queues at the aid office, validation will require an average of two weeks, at which time the SAR may be marked "Validated -- OK" and the student copy returned. According to the interviewees aid office validation during 1982 greatly exceeded two weeks at many institutions because ED validation instructions were disseminated after many SAR's had already been processed (or had been held awaiting instructions). Assuming timely dissemination in 1983, the two-week standard should be achievable.

If discrepancies are discovered during initial validation, resolution of the discrepancies requires a minimum of five weeks: two to three days to return the SAR and list of data deficiencies to the student; seven to ten days for the student to correct the deficiencies: two to three days for transmittal of the corrected SAR to the central processor; seventeen days for processing the corrected SAR; and one week for transmittal of the corrected SAR to the student, and subsequently to the school.

According to institutional case study data, actual award calculations by the institutional aid office requires no more than 20 minutes under the Regular Disbursement System (RDS). However, because of aid office backlogs and the need to type an award letter, turnaround time to the student will be perceived as 10 to 15 days; seven to ten days within the aid office plus three to five days for transmittal. Data from the SISFAP Institution questionnaire shows that 57 percent of institutions required less than one week from the date of submission of the SAR until the student is notified of their award amount, and 90 percent of schools required less than four weeks for this activity, at least prior to the expansion of validation requirements.

Under the Alternate Disbursement System (ADS), the student delivers an eligible SAR and completed Form 304, Part A, to the aid office. According to interview data, institutional certification of enrollment status (Form 304, Part B) will average one week unless processing backlogs are abnormal. Allowing one week for transmittal of the completed Form 304 to ED, three to four weeks for ED processing, and one week for transmittal of the award from ED to the student, the entire process will require seven to eight weeks.

Funds Disbursement Subsystem

Under the RDS, when SARs are presented to the institution before registration, every effort is made to disburse funds at registration. Therefore, turnaround time will depend on how long before registration the SAR is submitted. When the SAR is not presented before registration, disbursement typically requires a minimum of two to three weeks, although some schools are able to respond more quickly. Under ADS, the award is disbursed by Treasury check simultaneously with the award notification.

GSL Component

Student Application, Eligibility Determination, and Benefit Calculation Subsystems

The GSL applicant typically begins by obtaining a loan application from a potential lender, together with a statement of the lender's policies and a preliminary assessment of the likelihood of loan approval; this process generally requires one to two days. If an institutional certification of enrollment and a need analysis (if needed) has not already been received from the institutional aid office, this certification must be obtained. Completing this certification and determining loan limits will range from a minimum of two to three days to three to four weeks, depending on aid office procedures--longer (perhaps up to two months) if backlogs have formed at a peak processing time.

Once the application and institutional certification have been submitted to the lender, turnaround time of three to four weeks will elapse until the lender decides whether to approve the loan and receives approval from the guarantee agency, according to lender and GA site visits. This time consists of one week for processing by the lender, two to three days for transmittal of the lender's paperwork to the guarantee agency, one week for guarantee agency approval, and two to three days for transmittal of the guarantee to the lender.

These figures are probably reasonable estimates of national averages; the Merchants National Bank of Mobile, an active, "personalized" GSL lender, reports one to two days for processing and lender approval of the application, and two to four weeks including transmittal time for obtaining the guarantee. Chase Manhattan Bank, a large volume, multi-state lender who operates primarily by mail, estimates that it takes one week to process applications and three weeks to receive guarantee approval.

Funds Disbursement Subsystem

Once the loan guarantee is approved, a promissory note must be signed by the student. At the Merchants National Bank of Mobile, it takes three to four days to prepare and transmit the note, and an average of one week for the student to return the signed note. At Chase Manhattan Bank, it takes one week to generate the note, and two weeks for the student to return the signed note. Some GAs generate promissory notes at the time of guarantee approval as a service to the lender, which may decrease related lender processing time.

Lenders generally do not disburse funds more than 30 days prior to the beginning of the relevant academic term. The site visits and interviews suggest it generally takes lenders one to two weeks to disburse funds following guarantee approval. Merchants National creates a computerized disbursement account once the signed note is received, and generally disburses checks two weeks prior to the beginning of each academic term. Chase generally takes one week to disburse checks after receiving the signed note. In most cases, checks are sent to the schools. Depending upon the time of year and the responsiveness of the borrower, it takes as little as a day and as long as several weeks to get the check to the student.

Campus-Based Component

Student Application, Eligibility Determination and Award Calculation Subsystems

Initial processing of Campus-Based applications is normally performed by a need analysis processor. It generally requires two to three days for transmittal of the need analysis document from the student to the processor, three to four weeks at the processor, and two to three days for transmittal of the report from the processor to each institution requested by the student.

Turnaround time for application processing by the financial aid office depends on the extent to which the applications are examined and on the notification method used to report results to the student. According to aid administrators, campus processing of applications requires about one week if no special examination or validation is performed, and up to three to four weeks if applications are rigorously reviewed, including time for follow-up with the applicant.

If applications are processed on a "rolling basis," then turnaround time to the student will equal this processing time plus two to three days for transmittal of the award notification. However, many institutions adhere to a mid-April "common notification date," in which applications are processed and notifications are accumulated between early January and the notification date, when all award offers are disseminated. Turnaround time under this procedure might appear as long as 14 weeks or more to the early applicant.

If validation takes place and the institution routinely requests documentation along with submission of the application, validation will be accomplished at the same time as award determination, and will be "invisible" to the applicant if the school adheres to the common notification date. If documentation is requested only as needed, each request will add about two to three weeks to the process: two to three days for the request to reach the student; one week for the student to respond; two to three days for the response to reach the institution; and one week for institutional review.

Fund Disbursement Subsystem

The interviewees estimated that an average of ten days elapses between the date the institution mails notification of the award offer and the date the institution receives the signed acceptance letter from the student, which then triggers the authorization for disbursement.

At most institutions, SEOG proceeds are disbursed or credited to a student's account at registration. Generally, NDSL proceeds are also disbursed or credited to a student's account at registration. Therefore, turnaround time will vary for both NDSL and SEOG disbursments, depending on the date the applicant returns the signed acceptance letter to the institution, and the date of registration.

CW-S funds are disbursed as earned. Unless the student is a local resident, arrangement of the student's job takes a week or two following registration. The first check normally is received three to five weeks after the student begins work, depending on whether the institution is on a bi-weekly or monthly payment schedule.

7.4 CERTAINTY OF FUNDS (APPLICANTS/FAMILIES)

7.4.1 OVERVIEW

Definition

Certainty of funds is the probability that an applicant will actually receive the amount of funding expected, and/or the probability that funding will be received at the time when it is expected. Expectations involve subjective judgments which will change as new information is received or assimilated, so the degree of certainty that the applicant has will change over time. This effect is important because it may influence program participation and enrollment decisions.

Summary

No students or their families were interviewed for this study. However, many administrators from postsecondary institutions and state agencies noted concerns that affect their students. Most uncertainty related to the programs rather than to the delivery system, because of the constant, sudden changes in eligibility requirements and in the composition of award schedules. Uncertainty is also highly dependent on individual characteristics, such as the amount of information actually received by the applicant, and his or her ability to understand and assimilate this information. Uncertainty is greatest during the pre-application period, when potential applicants are first beginning to learn about the program. As the application process unfolds, certainty increases as the applicant learns about his/her eligibility status and probable award. Late delivery of the payment schedule may prolong the uncertainty, depending upon how the institution handles the absence of an official schedule. In the Campus Work-Study and Guaranteed Student Loan programs, some uncertainty will remain until the applicant finds a job or a lender. Once funds are disbursed, any remaining uncertainty should disappear, except as it relates to subsequent renewal (see also 7.7, "Availability of Information").

7.4.2 FINDINGS

Hearings and Site Visits

During the course of this study, no comments were submitted by applicants or their families. However, representatives of other participant groups (in particular, financial aid administrators) did note some concerns related to certainty of funds that affect their students.

The largest problems cited are related to features of the programs, rather than the delivery system. The perceived stability of aid programs, in terms of funding levels and eligibility criteria, and the timing of key Federal announcements and regulatory changes determine to a great extent the degree of "certainty" that applicants and their families have regarding the availability of, and their access to, financial assistance. Media reports of these changes, as well as information disseminated by the schools, will also affect this certainty.

The financial planning cycle for potential college students and their parents generally begins in the junior year of high school, when students begin to consider which colleges they would like to attend. During their senior year of high school, students must apply to the schools of their choice, and in some cases desire to make enrollment decisions by November or December of that year. Once students enroll, they must continue to plan for the financing of subsequent school years. Financial aid administrators argue that this planning cycle requires knowledge of financial aid availability two years in advance of the receipt of funds. In addition, in order for the school to develop information to be disseminated to students, and the student to receive the forms to be completed for the following year in a timely fashion, relevant decisions must be finalized at least one year in advance of the award year for which they are to be implemented.

However, political and administrative decisions related to program funding, eligibility criteria, and payment schedules are almost never made in a timely fashion. Some examples include:

- Although schools should now (in spring of 1983) be preparing for the 1984-85 award year, they are only now receiving information on rules, regulations, and funding for the 1983-84 award year. Regulations on draft registration, the definition of dependency, and GSL need analysis requirements are still not resolved (at the time of comment) for the coming academic year.

- The Higher Education Amendments of 1980 specified the use of a single "need analysis" methodology for the Pell and Campus-Based programs. However, this goal appears to be unreasonable due to funding and processing limitations. The fact that this issue has not been resolved makes it difficult to counsel students and families on the need analysis tests to which they will be subject in the future.

- The short notice of the reimplementation of GSL need analysis meant that many families found themselves suddenly in need of making last minute adjustments to their budgets.

- Discussions are still underway related to changing the definition of self-supporting students for the 1983-84 academic year, although students are now formulating their plans for the next year.

- The President's 1984 budget requests changes in the calculation of the costs of education for the 1983-84 award year, but it is not yet known if these changes will be approved. It is difficult for financial aid administrators to predict the impact of these changes, yet students are requesting counseling.

- In 1982-83, program funding figures were not received until late September or early October. However, many schools had to inform their students of aid awards in June or July, so that they could make enrollment decisions. This year (1983-84), funding notices were received in March, but they were tentative.

In sum, changes in the programs, which have a significant impact on applicant/family financial planning, frequently are not made in a timely manner, leading to a high degree of uncertainty.

Few comments were made on delivery system activities that contribute to certainty of funds. By law, schools are required to disseminate information on aid programs to potential students. Some state agencies, such as the Vermont Student Assistance Corporation, are also actively involved in disseminating information on aid programs. The quality of this information varies, affecting the degree of certainty felt by the student. Personal characteristics will also affect certainty; for example, the student's ability to collect, assimilate, and understand information varies greatly. More information on this effect is presented in the following section.

7.4.3 EFFECT BY ACTIVITY

Because certainty of funds is related to similar activities in each of the three program components, the following section combines discussion of the relevant subsystems for all three program components.

Pre-Application Subsystem

This subsystem generates most of the information that affects the applicant's certainty of funds. Information is disseminated by the Federal government, secondary schools, participating postsecondary institutions, many state agencies, and a few lenders, about eligibility, application procedures, and types of aid available. The certainty felt by the applicant is an outcome of the amount and consistency of information received, the timeliness of information receipt, and the applicant's (or his or her family) ability to collect, assimilate, and understand the information. Media coverage of legislative and budgetary proposals (frequently not distinguished clearly from actual Congressional decisions) is a strong contributor to applicant uncertainty and will be counteracted only by timely, aggressive dissemination of factual information. Because the ability to generate and to receive information depends upon the individuals involved, this effect varies greatly across individuals. The fact that the programs are subject to constant and sudden change adversely affects this certainty.

Student Application, Eligibility Determination, and Benefit Calculation Subsystems

As individual students progress through these subsystems, their degree of certainty about the amount of aid they will receive increases. Many schools also provide counseling during this period. When the student reads the materials and application instructions provided by the school, and completes the applications, he or she will probably make subjective judgments about eligibility and uncertainty will be reduced. Once the award notification is received, most uncertainty will disappear. However, if award notifications are delayed, or the student must find a job or a lender, some uncertainty will remain until these issues are resolved.

Fund Disbursement Subsystem

Once the student receives aid funds, certainty is no longer an issue.

7.5 MISCALCULATION/ERROR (APPLICANTS/FAMILIES)

7.5.1 OVERVIEW

Definition

Miscalculation/error refers to mistakes made by the applicants themselves, or by other participants who are processing their applications or disbursements. It refers to mistakes that influence the determination of eligibility and/or the amount of the award. These mistakes may be in the form of data items that are inaccurate, mathematical miscalculations, or other errors.

Summary

Studies of miscalculation/error in the Pell program indicate that these problems are significant. Approximately 71 percent of the applicants were affected by these miscalculations or errors, leading to net overpayments of $403 million in 1980-81. These errors are attributable to both applicants and educational institutions; few errors can be attributed to processors. Error-prone data items and calculations were also identified by this study and are reported in the following section. Caution must be exercised in applying these results to GSL and Campus-Based recipients because of the differing eligibility and award determination criteria, and because of differences in the types of students who receive various types of aid. However, the Pell studies indicate that miscalculation/error may also be a significant problem for the latter two programs.

7.5.2 FINDINGS

"Quality in the Basic Grant Delivery System, Stage 1," Advanced Technology, Inc. and Westat, Inc., U.S. Department of Education, 1982

The purpose of this quality control (QC) study was to develop estimates of errors by applicants, postsecondary institutions and data processors in the Pell component of the delivery system. During the spring of 1981, financial aid administrators were interviewed at a nationally representative sample of 305 public, private, and proprietary institutions. Each administrator was asked to describe his or her procedures for processing Pell Grant applications, and an average of 14 students at each institution were randomly selected for evaluation--4,500 Pell recipients in all. After their financial aid records were transcribed, the students and their parents were interviewed and asked to provide documentation of the application information used to establish eligibility and determine award amount. Additional documentation was obtained from the IRS, local tax assessors, and other appropriate authorities.

The documented information was used to compute "best estimates" of eligibility status and correct award amount. The difference between the "best estimate" of each student's award and paid (or scheduled-to-be-paid) award was defined as error. Errors were tabulated in various ways, then decomposed by source:

- Applicant, including errors on application data items.
- Institution, including miscalculations, errors in transcribing data from institutional files, and misinterpretation of program criteria or instructions.
- Processor, including data entry errors.

The results of this analysis are summarized in Figures 7.5-1 and 7.5-2. Figure 7.5-1 includes error due to lack of an Affidavit of Educational Purpose (AEP) or of a Financial Aid Transcript (FAT). Because AEP/FAT errors are considered technical and easy to correct, Figure 7.5-2 (which ignores AEP/FAT errors) may be considered a better indicator of substantive miscalculation/error.

As shown in Figure 7.5-2, total error was $527 million, affecting 69 percent of the recipients. Because both institutional and student errors may occur on a single application (and occasionally operate in offsetting directions), the total error is the net of $211 million in institution errors, affecting 37 percent of the recipients, and $352 million in student errors, affecting 41 percent of the recipients. Alternatively, total error may be decomposed into $410 million in overawarded errors, affecting 46 percent of the recipients, and $153 million in underawarded errors, affecting 23 percent of the recipients. Few errors were attributable to processors.

FIGURE 7.5-1

ESTIMATED INSTITUTION AND STUDENT ERROR
(1980-1981)

	ALL ERROR[1]			NET ERROR		
	DOLLARS	% OF RECIPIENTS	MEAN[2]	DOLLARS	% OF RECIPIENTS	MEAN[2]
Institution Error[3]	$363 M	42%	$364	$181 M	42%	$183
Student Error[3]	$318 M	30%	$355	$222 M	30%	$247
Sum of Student & Institution Errors	$681 M	71%[4]	$407	$403 M	71%[4]	$241
Total Dollar Error	$650 M	71%[4]	$388	$402 M	71%[4]	$239

	OVERAWARDING ERROR			UNDERAWARDING ERROR		
	DOLLARS	% OF RECIPIENTS	MEAN[5]	DOLLARS	% OF RECIPIENTS	MEAN[5]
Institution Error[3]	$272 M	26%	$441	-$ 91 M	16%	-$239
Student Error[3]	$270 M	29%	$398	-$ 48 M	9%	-$231
Sum of Student and Institution Errors	$542 M	50%[4]	$462	-$139 M	21%[4]	-$279
Total Dollar Error	$526 M	50%[4]	$448	-$124 M	21%[4]	-$249

[1] Amount of total institutional error plus all student error per recipient totaled independently.

[2] Mean for all recipients with error.

[3] All disbursements to students who are ineligible due to institutional error are counted as institutional error in these computations. If SEI error among recipients missing affidavits or statements of educational purpose, or financial aid transcripts, is added to this figure, student error totals $352 million (net student error is $246 million).

[4] Unduplicated count of institution and/or student error.

[5] Mean for all students with overaward (underaward).

Source: QC Findings, p. 2.6

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FIGURE 7.5-2

ESTIMATED INSTITUTION AND STUDENT ERROR NOT INCLUDING AEP/FAT ERROR, 1980-1981

		ALL ERROR[2]			NET ERROR	
	DOLLARS	% OF RECIPIENTS	MEAN[3]	DOLLARS	% OF RECIPIENTS	MEAN[3]
Institution Error[1]	$211 M	37%	$241	$ 11 M	37%	$ 14
Student Error[1]	$352 M	41%	$363	$246 M	41%	$254
Sum of Student & Institution Errors	$563 M	69%[4]	$346	$257 M	69%[4]	$158
Total Dollar Error	$527 M	69%[4]	$323	$256 M	69%[4]	$158

		OVERAWARDING ERROR			UNDERAWARDING ERROR	
	DOLLARS	% OF RECIPIENTS	MEAN[5]	DOLLARS	% OF RECIPIENTS	MEAN[5]
Institution Error[1]	$111 M	20%	$236	-$100 M	17%	-$243
Student Error[1]	$299 M	31%	$403	-$ 53 M	10%	-$233
Sum of Student and Institution Errors	$410 M	46%[4]	$381	-$153 M	23%[4]	-$284
Total Dollar Error	$392 M	46%[4]	$364	-$135 M	23%[4]	-$250

[1] Missing affidavits or statements of educational purpose and financial aid transcripts are not included as institutional error. Any cases with error greater than two dollars are included.

[2] Amount of error associated with all types of total institutional error plus all types of student error per recipient totaled independently.

[3] Mean for all recipients with error.

[4] Unduplicated count of institution and/or student error.

[5] Mean for cases with error.

Source: QC Findings, p. 2-11.

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Figure 7.5-3 presents a breakdown of the aggregate error figures by component. Since, for the most part, all three programs (Pell, GSL and Campus-Based) have similar categorical eligibility requirements, the 1.3 percent rate of program eligibility error is probably a reasonable estimate of the percent of GSL and Campus-Based recipients with errors in categorical eligibility, although the stringency of application review may vary across programs. In addition, the fact that 18.2 percent of Pell recipients were found to have enrollment status errors is an indication that problems with enrollment status reporting may also exist for the Campus-Based and GSL programs (e.g., students reported as enrolled half-time or more may not be, thereby making them ineligible for the programs). However, the types of students applying for aid varies across programs, and hence may affect these error rates.

Of particular interest is the relationship between delivery system activities and miscalculation/error. In the QC study an attempt was made to relate perceived problems on the application to discrepancy rates to determine the degree to which the application form might have contributed to error in the program. Figure 7.5-4 presents the results of this analysis. There does appear to be some correlation between difficulties reported by parents and students on an application item and discrepancies identified on that item. This may indicate that there is a relationship between the application form and error rates.

Another question of interest concerning miscalculation/error is the relative contribution of discrepancies on various application items to total error. Figure 7.5-5 shows the marginal impact of the Pell application items on resulting award error. The results indicate that discrepancies in adjusted gross income are the most significant cause of error in the Pell program, with student income, home equity, and household size having the second, third, and fourth highest marginal impacts, respectively.

The impact of misreporting of adjusted gross income identified in the QC study can be taken as a first approximation of the magnitude of this problem in the GSL program. The data would tend to indicate that there may be problems related to students with actual adjusted gross incomes over $30,000 reporting smaller incomes, and thus avoiding application of a needs test. In addition, underreporting

FIGURE 7.5-3

COMPONENTS OF BEOG DISBURSEMENT ERROR
(1980-1981)

	RECIPIENTS WITH ERROR	PERCENT OF ALL RECIPIENTS	MEAN ABSOLUTE ERROR FOR RECIPIENTS WITH ERROR
Student [SEI] Error	897,000	38%	$355
Student Error Not Counting AEP/FAT Error[1]	968,000	41%	$354
Total Institution Error	991,000	42%	$366
Institution Error Not Counting AEP/FAT Error	873,000	37%	$241
Components[2]			
AEP/FAT Error	181,000	7.7%	$933
BA and Citizenship Error	4,000	.2%	$849
Program Eligibility Error	31,000	1.3%	$789
Enrollment Status Error[3]	430,000	18.2%	$219
Calculation Error[3]	368,000	15.6%	$ 79
Cost of Attendance Error	354,000	15.0%	$177

[1] When AEP/FAT error by institution is not counted as disbursement error, student error grows in frequency and magnitude as a factor in overall disbursement error. This is because errors that were smaller than AEP/FAT in cases with AEP/FAT error become significant and are counted once AEP/FAT error is ignored. Such errors were subsumed by AEP/FAT error in the original calculations.

[2] Component figures are computed independently for each type of error. The sum therefore exceeds the total of all error, because error has been counted more than once in all cases where more than one type of error occurs.

[3] Estimated breakdown of institutional error components using spring 1981 data. Final component figures will be derived from institutional reconciliation rosters as part of Stage Two of this project.

Source: QC Findings, p. 2-8.

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FIGURE 7.5-4

REPORTED DIFFICULTIES ON VARIOUS ITEMS ENCOUNTERED IN FILLING OUT THE APPLICATION FORM[1] (1980-1981)

	PERCENT OF ALL CASES WITH DISCREPANCIES	PERCENT OF PARENTS REPORTING DIFFICULTIES	PERCENT OF STUDENTS REPORTING DIFFICULTIES
Citizenship	1	0	0
Marital Status (Student)	2	0	0
Bachelor's Degree	0+	0	0
Live with Parents, 1979	2	3	5
Live with Parents, 1980	5		
Exemption, 1979	3	1	2
Exemption, 1980	5		
Support, 1979	15	6	7
Support, 1980	17		
Household Size	22	2	2
Number in Postsecondary Education	19	1	2
Marital Status (Household)	4	2	2
Filed IRS	3	1	3
Estimated Taxes	13	2	3
Number Exemptions	5	2	3
Adjusted Gross Income	19	2	6
Taxes Paid, 1979	19	3	4
Itemized Deductions	7	2	3
Social Security Income, 1979	9	4	3
Other Nontaxable Income, 1979	14		
Earned Income (Head of Household)	36	4	4
Earned Income (Spouse)	15		
Medical/Dental Expenses	32	4	4
Tuitions	5	3	2
Cash/Savings/Checking	40	5	2
Home Value	29	10	3
Home Debt	24		
Investment Value	3	2	1
Investment Debt	2		
Business/Farm Value	4	3	1
Business/Farm Debt	3		
VA Educational Benefits, Monthly	2	1	1
VA # Months	1		
Social Security Income, 1980	0+	2	1
Social Security # Months, 1980	0+		
Income, 1979 (Student+Spouse)	19[2]	5	6
Assets (Student+Spouse)	21[2]	2	1

---

[1] Data are rounded to nearest percent, so a zero may indicate a small proportion of applicants' families.

[2] Percent of dependent students.

Source: OC Findings, p. 2.47

FIGURE 7.5-5

THE RELATIVE IMPACTS OF ERRORS IN BEOG APPLICATION ITEMS ON TOTAL GRANT DISBURSEMENT ERROR (1980-1981)

APPLICATION ITEM	RESULTING AWARD ERROR (NET IN MILLIONS)[1]	RESULTING INCREASE IN AWARDS PER STUDENT (NET)[2]	RANK
Adjusted Gross Income[3]	$101	$43	1
Income, 1979 (Student + Spouse)	43	18	2
Home Equity	38	16	3
Household Size	33	14	4
Assets (Student + Spouse)	26	11	5
Nontaxable Income (Other Than Social Security)	22	9	7
Investment Equity	14	6	8
Number in Postsecondary Education	14	6	9
Cash/Savings/Checking	8	3	10
Business Equity	7	3	11
VA Educational Benefits, Monthly	2	1	11
Taxes Paid, 1979	0	0+	12
Marital Status, Student	0	0+	13
Social Security Income, 1979	0	0+	14
Medical/Dental Expenses	-1	0-	15
Earned Income (Head of Household)	-1	0-	16
Tuitions	-2	-1	17
Earned Income (Spouse)	-2	-1	18

[1] For policy purposes, the data from our sample are extrapolated to program-wide error levels. Note that there is substantial overlap of error amounts, so column total is larger than actual total student error. Data are rounded to the nearest million.

[2] Data are rounded to the nearest dollar.

[3] Includes estimates of error drawn from tax data for students found to have filed under the incorrect dependency status.

Source: QC Findings, p. 3-22.

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of income by these students would increase their "need" for the program, and they may be granted larger loans than those for which they are actually eligible. Caution should be exercised in translating QC results to the GSL program because of the generally lower income of Pell recipients, and because graduate students are eligible for the GSL program, but not for Pell grants. Graduate students were not represented in the QC sample. In addition, for most GSL applicants, only the AGI, household size, number in college, and number of parents are used to determine awards. Taxes paid and assets are considered only in the case of high income applicants.

While the Pell, GSL, and Campus-Based programs differ in many aspects, a core set of data elements (i.e., income, dependency status, etc.) are used in the applications for all programs. Therefore, the item discrepancy rates reported in Figure 7.5-4 for the Pell program can be used as a proxy for the error rates occuring on these same items in the applications for the other programs. The results demonstrate that for many of the data items, discrepancy rates are high, which means that much of the core data reported on GSL and Campus-Based applications are probably suspect. The need analyses performed using this data would then be inaccurate, unless the errors are identified and corrected. .

In addition to existing errors made by students and institutions, the QC study also examined errors made by MDE processors in transferring information from students' original application forms to data tapes. For a subsample of 1,250 recipients in the QC sample, the data listed on their original application was compared to the data found on the processors' files. Figure 7.5-6 presents the results of this analysis. Although overall error rates were extremely small (one data entry error for every 1,667 data items or 37 applications processed), it is interesting to note that the error rate for mark sense technology was four times higher than the rate for conventional key entry techniques.

Figure 7.5-7 presents data concerning differential error rates between validated and non-validated students. The data does not reveal a significant difference in error rates between the two groups of recipients. However, for a variety of reasons this is not an indication of the effectiveness of validation. The section of this report on fund control for the Federal government (section 3.3) presents data

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FIGURE 7.5-6

APPLICATION DATA ENTRY DISCREPANCIES
(1980-1981)

							ERROR RATE	
MDE FORM USED	NAME	ADDRESS	INCOME	HOUSEHOLD	TOTAL	SAMPLE SIZE	PER ITEM	PER FORM[1]
CSS	5	1	1		7	500	.0003	.014
PHEAA			3	1	4	250	.0004	.016
ACT[2]								
Incomplete Erasure		5	1		6			
Applicant Miscoding	1	0	14	4	27	500	.0015	.068
Inexplicable			1		1			
TOTAL	6	14	20	5	45	1250	.0008	.036
						Weighted Rates[3]	.0006	.027

[1] There were no forms with duplicate errors.

[2] NOTE: CSS and PHEAA use conventional key-entry techniques, while ACT uses marksense scanning. The ACT technique requires a different breakdown of data entry errors. For details, see text.

[3] Weighted for actual distribution of MDE forms (71% CSS, 24% ACT, 5% PHEAA).

Source: QC Findings, p. 4-6.

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FIGURE 7.5-7

DISBURSEMENT DISCREPANCIES: VALIDATED VS. NONVALIDATED STUDENTS (1980-1981)

	PEC SELECTED (Sample N=792)	RANDOMLY SELECTED (Sample N=145	TOTAL VALIDATED (Sample N=937)	NONVALIDATED (Sample N=2,935)
TOTAL DISBURSEMENT DISCREPANCIES				
All Underawards				
Percent with discrepancies	21%	19%	21%	21%
Mean discrepancies	-$248	-$276	-$252	-$231
All Overawards				
Percent with discrepancies	51%	54%	52%	50%
Mean discrepancies	$440	$389	$431	$446
Mean Net Discrepancies	$172	$158	$170	$171
Mean Absolute Discrepancies	$276	$263	$276	$276
INSTITUTION ERROR				
Underawards				
Percent with discrepancies	14%	15%	14%	16%
Mean discrepancies	-$213	$301	-$228	-$243
Overawards				
Percent with discrepancies	29%	28%	26%	26%
Mean discrepancies	$418	$410	$417	$442
Mean Net Discrepancies	$ 75	$ 69	$ 74	$ 78
Mean Absolute Discrepancies	$134	$160	$140	$154
STUDENT ERROR				
Underawards				
Percent with discrepancies	11%	6%	10%	9%
Mean discrepancies	-$257	-$206	-$252	-$230
Overawards				
Percent with discrepanices	31%	30%	31%	29%
Mean discrepancies	$403	$332	$391	$395
Mean Net Discrepancies	$ 96	$ 89	$ 95	$ 94
Mean Absolute Discrepancies	$153	$112	$146	$135

Source: QC Findings, p. 7-14.

relating to the effectiveness of validation. Figure 7.5-8 presents a breakdown of error by whether or not the institution conducted its own validation. Again, no significant differences in error rates are discernible between students who attended schools that conducted their own validation and those that did not. A further discussion of the effectiveness of institutional validation is contained in the section on fund control for institutions (section 5.3).

"Field Testing 1982-83 BEOG Application Forms: Final Report", Rehab Group, Inc. and Macro Systems, Inc., U.S. Office of Education, 1981

This study reports the results of experimental testing of three alternative versions of the Pell Grant financial aid application. Of the 391 test subjects, 153 simulated use of Form I, which most closely resembled the actual form in use at that time. Rehab/Macro reports an error rate of 2.9 items per form for subjects simulating status as dependents of their families, and 3.7 items per form for subjects simulating independent students. The small sample size and artificiality of the test situation limit the applicability of the aggregate error rates. However, the reported error rates by item are instructive with respect to intrinsic item difficulty in the absence of incentives to understate financial resources.

The five Form I items with the highest experimental error rates were State and Local Taxes (37.9% of forms), medical/dental expenses (24.8%), income earned from work (18.3%), student's net income (15.7%), and income taxes paid (14.4%). As noted earlier, these figures can be used as a proxy for error rates on these same data items in the GSL and Campus-Based programs.

Central Processor Statistics

Additional statistics on applicant error rates are regularly reported to ED by the Pell central processor, who is responsible for rejecting clearly erroneous applications, processing corrections, and computing the SAI used to establish eligibility and award amount. These statistics focus particularly on the rates of error for initial submissions and the volume of transactions required to produce an acceptable application.

Based on these statistics from earlier years, the recent Request for Proposal for the central processor contract projects the following statistics on a February-to-

FIGURE 7.5-8

DISBURSEMENT DISCREPANCIES AT INSTITUTIONS CONDUCTING AND NOT CONDUCTING INSTITUTIONAL VALIDATION (1980-1981)

	INSTITUTIONAL VALIDATION (Sample N = 2,697)	NO INSTITUTIONAL VALIDATION (Sample N = 1,367)
Total Disbursement Discrepancies		
All Underawards		
Percent with discrepancies	21%	22%
Mean discrepancies	-$241	-$262
All Overawards		
Percent with discrepancies	47%	55%
Mean discrepancies	$447	$451
Institution Error		
Underawards		
Percent with discrepancies	14%	20%
Mean discrepancies	-$219	-$268
Overawards		
Percent with discrepancies	22%	34%
Mean discrepancies	$437	$447
Student Error		
Underawards		
Percent with discrepancies	10%	7%
Mean discrepancies	-$235	-$218
Overawards		
Percent with discrepancies	29%	27%
Mean discrepancies	$401	$391
Sum of Total Award		
Discrepancies in dollars	$248 M	$154 M
Percent of net error	62%	38%
Percent of recipient population	66%	34%

Source: QC Findings, p. 5-35.

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February basis: 5,175,000 applications, 2,231,100 rejections, and 1,976,000 history corrections. As a first approximation, one can divide rejection and correction volumes by application volumes, to estimate an error rate of 43 percent and a correction rate of 38 percent. This estimate is an overstatement of the error rate per application, because some fraction of errors occur on the first as well as subsequent corrections. Because no separate data exist on errors in corrections transactions, the size of the overstatement is unknown; however, it is thought to be small. These statistics show a high rate of rejections and corrections occurring in the Pell application process.

7.5.3 EFFECT BY ACTIVITY

Pell Grant Component

Student Application Subsystem

As discussed above, approximately 43 percent of all applications submitted to the central processor are expected to be initially rejected in the coming award years, indicating incomplete or incorrect applications submitted by students. The estimated correction rate is 38 percent. Data from the QC study found that 41 percent of the applicants had errors on their applications which affected their subsequent award; the mean net error for these applicants was $254.

Student Eligibility Determination Subsystem

Errors can occur in the student eligibility determination process either in the SAI calculation performed by the central processor or the categorical eligibility determination done by institutions. Estimates of errors made by MDE processors determined in the QC study show a relatively low error rates (one data entry error for every 1,667 data items or 37 applications processed). Given the importance of data entry errors, however, this cannot be considered an insignificant problem. Additionally, data input using mark sense technology had an error rate four times higher than the data input by conventional key entry techniques.

Institutions were found in the QC study to commit errors in the determination of categorical eligibility in 9.1 percent of the sample. However, 7.8 percent of these were AEP/FAT errors (required forms not in student files) and are generally not considered critical.

QC data comparing error rates between validated and non-validated applications did not reveal any significant differences between the two groups. As stated previously, this does not necessarily mean that validation was ineffective.

Student Benefit Calculation Subsystem

The amount of a Pell Grant award is determined by three factors: cost of attendance, enrollment status (full-time, 3/4-time, or half-time), and the Pell Payment Schedule. According to the QC study, cost of attendance errors affected 15.0 percent of sampled recipients, with an absolute mean error of $177 per recipient with error. Corresponding figures are 18.2 percent and $219 for enrollment status error, and 15.6 percent and $79 for calculation error.

Errors in ADS student award calculation should be due entirely to data entry error by the central processor, for which the contractual allowable maximum is 1/4 of one percent.

Fund Disbursement Subsystem

No data were available on errors in the disbursement process.

GSL Component

Student Application Subsystem

Data from the Pell QC and the Macro/Rehab studies suggest that there may be a significant amount of discrepancy in application items reported by students. To the extent that those Pell results can be generalized to the GSL population (which should be done with caution given the different populations receiving aid through the two programs), those discrepancies may affect the determination of which students are required to demonstrate need before receiving a loan, as well as the calculation of that need for those students.

Student Eligibility Determination Subsystem

In the Pell QC study, 1.3 percent of Pell recipients were found to be categorically ineligible, based on program eligibility criteria. This figure does not include the 7.7 percent of recipients categorically ineligible due to the lack of an

AEP/FAT on file. However, GSL recipients tend to come from higher social-economic strata than Pell Grant recipients, and include graduate students. Caution should thus be used in applying Pell findings to GSL recipients.

Student Benefit Calculation Subsystem

Little data are available on the extent of errors in determining the amount of GSL loans, although the Pell data reported earlier leads one to believe that these errors may be significant. GSL applications are checked three times: once by the school, once by the lender, and once by the guarantee agency. These checks may decrease errors in the determination of loan amounts. The lack of national data on previous loans and defaults may also lead to inaccurate determination of loan amounts.

Fund Disbursement Subsystem

No data are available on errors in the disbursement process.

Account Reconciliation Subsystem

No data are available on errors relating to the development and dissemination of repayment schedules. However, the Pell QC study found enrollment status errors estimated at 18.2 percent, which could also affect the determination of borrower entrance into repayment status. Lenders (and schools) also note that accurate and timely information on changes in student status can be difficult to collect.

Campus-Based Component

Student Application Subsystem

As stated before, the relatively high discrepancy rates for application items found in the Pell program may mean that similar misreporting is occurring in the Campus-Based programs. If so, the determination of need for the Campus-Based programs may be inaccurate in a significant number of cases. It is possible, however, that the editing/follow-up done by the MDE processors subsequent to transmittal of financial data to the Pell processor, and the voluntary data verification/application review conducted by the institution combine to make the Campus-Based data "cleaner" than the Pell data. Unfortunately, there are no data to support or refute this possibility.

Student Eligibility Determination Subsystem

As reported earlier, 1.3 percent of Pell Grant recipients sampled in the quality control study were found to be categorically ineligible based on program eligibility requirements other than the absence of an AEP/FAT on file. This percentage may be taken as a first-approximation of the error rate in eligibility determination for Campus-Based aid, since many of the same eligibility criteria apply to these programs.

Student Benefit Calculation Subsystem

To the extent that errors in the Pell benefit calculation subsystem are mirrored in the Campus-Based program, significant errors may exist in this subsystem. However, the presence of a more comprehensive and flexible cost of attendance determination, combined with the absence of a need for translation to a payment schedule may make this calculation less problematic.

Fund Disbursement Subsystem

No data are available on errors in disbursement processing.

7.6 DATA BASE VULNERABILITY (APPLICANTS/FAMILIES)

7.6.1 OVERVIEW

Definition

Data base vulnerability refers to the ease with which confidential data received from the applicant can be accessed for unauthorized use. It represents the degree to which the delivery system is designed to protect the privacy rights of applicants and their families.

Summary

Data base vulnerability can be affected by all organizations that maintain information on financial aid recipients, including the Federal government, schools, lenders, servicing agencies, secondary markets, and state agencies. In general, the Federal government enforces the need to maintain the confidentiality of student records. According to the Privacy and Security Review Report, the government seems to accomplish high levels of security for the Pell Grant Disbursement System. Data from the SISFAP institutional questionnaire indicates that most schools do restrict access to personal information, although they are less conscientious about having a procedure to monitor this access. Institutional practices vary by institution. GSL participants also vary in the degree and type of security arrangements for student loan records.

7.6.2 FINDINGS

"Privacy and Security Review Report," Advanced Technology, Inc., U.S. Department of Education, 1982

This document contains a number of findings on the current security of the Pell Grant Disbursement System. Concern with confidentiality is high among ED systems support staff. The following procedures were noted: regular ID and password changes, limited access to the system, pre-employment screening, and extensive physical security. Documented needs include regular procedures auditing (comparison of actual practices against systems documentation), maintenance of the Privacy Breach Report System, a list of employees, security levels and legal powers, more secure storage facilities for microfiche, an inventory of security objects, an inventory of sensitive programs, and documentation of position procedures.

Pell Central Processor Request for Proposals

The recent RFP for the Pell central processor requires that the student records to be processed constitute a "system of records" as defined by the Privacy Act, and requires development and implementation of a plan to protect data base security and comply with the Privacy Act. In evaluating the proposers' Phase I statement of work, this plan is tied for 4th of 9 items in evaluation importance, indicating relatively high priority.

"A Study of Program Procedures in the Campus-Based and Basic Grant Programs" (SISFAP), Applied Management Services, Inc., U.S. Department of Education, 1980

The SISFAP institutional questionnaire surveyed a representative sample of 173 postsecondary institutions. Part of the institutional questionnaire dealt with the procedures used to protect confidential data stored for use in the Pell and Campus-Based programs. Results are summarized in Figure 7.6-1.

Site Visits

Lender, noteowner, and state agency site visits yielded some information on security procedures for student loan records. The following are the security procedures employed by the Student Loan Marketing Association's (SLMA) in-house servicing center to protect the integrity of student records:

- Each employee is only given access to information needed to do their job.
- Personnel are limited as to inquiry and update capabilities.
- All updates are computer-edited and also sent to the supervisor for manual review.
- Records are immediately placed on microfiche when received, and the paper records are stored.
- Personnel generally do not have access to the original documents.

Similar procedures are generally followed by SLMA's other twelve servicers.

FIGURE 7.6-1

PREVALENCE OF INSTITUTIONAL PROCEDURES FOR PRIVACY PROTECTION OF STUDENT DATA (1978-1979)

	Percent Using Procedure	
Security Procedures	BEOG Records	Campus-Based Aid Program
Records are kept locked	70.0%	74.4%
Access to student records is restricted to certain institutional staff	98.8%	97.4%
Release forms must be signed by all persons pulling records	17.1%	17.3%
Two identifications are required in order to release records	28.2%	30.8%
Written releases are required from students in order to disclose records	77.6%	80.1%
Financial or award information is not normally released over the phone	90.6%	90.4%
Logs are maintained to record the disclosure of student information	20.0%	21.2%

Source: SISFAP Institutional Questionnaire.

Chase Manhattan Bank has just moved to new facilities, and hence, is beginning to improve their storage procedures. Paper records are kept in zip-loc plastic bags to avoid losses, and only file room staff can pull records. When paper documents are removed from the file room, the person removing them is documented on an "out card" that is inserted into the file. Because employees do not yet trust the computerized system, they often pull the original file. Chase is beginning to keep photographed copies of its files. All files are stored in a fire protected area.

The Vermont Student Assistance Corporation limits access to paper files. Only a few key personnel are given the code words necessary to input information into the computerized system, or to correct or update the data. Employees have access only to the information that is relevant to their jobs. In general, employees use only the computerized data; use of paper files is minimal.

7.6.3 EFFECT BY ACTIVITY

Because this effect is not tied to specific activities, and is affected by actions of all participants throughout the delivery system, no breakdown by activity is presented.

7.7 AVAILABILITY OF INFORMATION (APPLICANTS/FAMILIES)

7.7.1 OVERVIEW

Definition

Availability of program information refers to the degree to which the delivery system generates the information needed by the applicants and their families to begin and continue participation in the programs. Information related to participation includes knowledge of the program's existence, of sources of additional information, of types of aid available, and of the relevant application procedures.

Summary

Data from the CIRP and "High School and Beyond" studies indicate that a significant proportion of college freshmen and high school seniors have not heard of the Federal financial aid programs. In addition, responses to the SISFAP student questionnaire showed that 10 percent of non-applicants stated they did not apply for financial aid because they did not know about the financial aid programs. This response was especially prevalent among low income students who most likely would have been eligible for financial aid. Information from the Quality Control Study, SISFAP, and the ED Survey of Consumer Complaints demonstrated a high percentage of Pell applicants seeking outside assistance to complete the application form.

This data would tend to indicate the availability of program information was low for the applicant/family. However, based on site visits and responses to the SISFAP institution questionnaire, it is apparent that there is a great deal of information covering financial aid available through various mediums. The problem may be that students do not become aware of this information and that more aggressive techniques are necessary to increase the awareness concerning financial aid programs.

7.7.2 FINDINGS

"High School and Beyond," National Opinion Research Center, National Center for Educational Statistics, 1980

A 1980 survey of a stratified national probability sample including 37,600 high school seniors reported the answers presented in Figure 7.7-1 to the question, "Do you plan on using the following programs?".

FIGURE 7.7-1

HIGH SCHOOL STUDENT FINANCIAL AID PLANNING: RESPONSES TO THE QUESTION "DO YOU PLAN TO USE THE FOLLOWING PROGRAMS" (1980)

Program	Percent of Students Reporting by Socioeconomic Status											
	All			Low			Middle			High		
	Plan To Use	Don't Plan To Use	Don't Know Prog.	Plan To Use	Don't Plan To Use	Don't Know Prog.	Plan To Use	Don't Plan To Use	Don't Know Prog.	Plan To Use	Don't Plan To Use	Don't Know Prog.
NDSL	11%	60%	29%	14%	52%	34%	12%	57%	31%	9%	65%	26%
GSL	16%	57%	27%	18%	50%	32%	18%	54%	28%	14%	62%	24%
Pell	36%	40%	18%	61%	24%	15%	41%	41%	18%	18%	63%	19%
SEOG	13%	58%	29%	26%	42%	32%	14%	56%	30%	6%	69%	25%
CW-S	30%	53%	17%	42%	39%	19%	31%	51%	18%	22%	62%	16%

Source: High School and Beyond.

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In all likelihood, many of the respondents answering that they did not plan to use a program also did not have knowledge of the program. Therefore, the percentage not knowing the program is probably somewhat higher than the responses here would indicate.

"A Study of Program Management Procedures in the Campus-Based and Basic Grant Programs (SISFAP)," Applied Management Sciences, Inc., U.S. Department of Education, 1980

SISFAP consisted of a series of questionnaires and other data collection efforts, conducted in 1978-79 and followed-up in 1979-80, designed to provide information on the provision of student financial aid. Of interest in analyzing the availability of program information for the applicant/family are responses from both the student questionnaire (a representative sample of 10,961 students in postsecondary institutions) and the institution questionnaire (a sample of 173 postsecondary institutions).

An important aspect of the availability of program information is the extent to which students do not apply for financial aid because they lack information about financial aid programs. This question was addressed in the SISFAP student questionnaire with the results presented in Figure 7.7-2. These results indicate a significant number of non-applicants who stated that one of the reasons that they did not apply for financial aid was because they did not have knowledge of financial aid programs. The percentage of non-applicants having this response was higher for non-applicants with lower incomes, which is especially disturbing since there is a high probability that they would have been eligible for financial aid had they applied.

In large part, the availability of information for the applicant/family relates to the obtainment and completion of the required financial aid application. The responses in Figure 7.7-3 were given to the question, "Where did you obtain your financial aid application form(s)?". These responses suggest, as expected, that the focal point for students applying for financial aid is the institution they are currently attending (high school or postsecondary).

FIGURE 7.7-2

PERCENTAGE AND NUMBER (WEIGHTED) OF NON-APPLICANTS WHO STATED THEY DID NOT KNOW ABOUT FINANCIAL AID PROGRAMS BY DEPENDENCY STATUS AND INCOME (1979-1980)

DEPENDENT			INDEPENDENT		
	%	Number		%	Number
Under $6,000	11%	64,000	Under $3,000	24%	41,000
$6,000 - $11,999	27%	12,000	$3,000 - $5,999	17%	19,000
$12,000 - $17,999	8%	15,000	$6,000 - $8,999	20%	19,000
$18,000 - $23,999	12%	44,000	$9,000 - $11,999	6%	6,000
$24,000 and Over	7%	95,000	$12,000 and Over	6%	22,000
TOTAL	10%	230,000	TOTAL	17%	107,000

Source: SISFAP Student Questionnaire.

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FIGURE 7.7-3

SOURCE OF AID APPLICATIONS
(1979-80)

Source	Percent of Applicants
High School	22%
Public Library	10%
Financial Aid Office	76%
Other Location On-Campus	4%
State and/or Local Government	3%
Department of Education	3%
Other	6%

Source: SISFAP Student Questionnaire

The extent to which students required assistance in completing financial aid applications was also addressed in the student questionnaire. Thirteen percent of the respondents stated that someone else completed their financial aid application, and 46 percent of the respondents stated that they received assistance in completing their financial aid application. For those respondents indicating outside assistance in completing their financial aid application, the source of that assistance is broken down in Figure 7.7-4.

Another important aspect of the availability of information is the extent to which students obtaining loans understand their rights and obligations related to these loans, especially after they leave school. The SISFAP institution questionnaire has several questions pertaining to institutional procedures for conveying loan obligation information to NDSL borrowers. Figure 7.7-5 presents the responses to these questions.

Figure 7.7-5 demonstrates that almost all schools in the sample stated that they contact students at the time of the loan offer, loan receipt, and when leaving school. The information provided at these contacts varies little among institution types and would appear to give borrowers sufficient information to make them understand their rights and obligations under the NDSL program. Since these are self-reported data, there may be a tendency for institutions to overestimate the amount of information provided to students. It is interesting to note that although almost all schools said they hold exit interviews, a significant minority of borrowers do leave school without an exit interview. These are most likely students dropping out of school without notice; the fact that they do not receive a face to face exit interview may portend future problems in servicing these loans. Most schools do send comparable written materials to the last known address of students who miss personal exit interviews.

Another question in the SISFAP institution questionnaire asks how institutions make financial aid information available to students. The answers to this question are presented in Figure 7.7-6. The responses indicate that almost all schools (with

FIGURE 7.7-4

SOURCES OF OUTSIDE ASSISTANCE IN COMPLETING AID APPLICATIONS

(1979-80)

Source	Percent of Applicants
Financial Aid Office	21%
Someone Else at the School	3%
Private Firm or Consultant	4%
Family	79%
Friends	5%
Other	2%

Source: SISFAP Student Questionnaire.

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FIGURE 7.7-5

PERCENTAGE OF INSTITUTIONS EMPLOYING CERTAIN PRACTICES FOR INFORMATION PROVIDED TO NDSL BORROWERS BY TYPE OF INSTITUTION (1978-1979)

Institution Practice	Four-Year Public	Four-Year Private	Two-Year Public	Two-Year Private	Proprietary
Is the institution provided with a general statement with every loan offer?	96%	91%	88%	88%	12%
If so, does it contain:					
Copy of promissory note	77%	81%	100%	80%	75%
General source of loan funds	77%	79%	87%	80%	69%
Data on interest rates	98%	95%	100%	80%	100%
Deferment and cancellation provisions	91%	98%	93%	86%	69%
Information on grace periods	93%	93%	100%	86%	88%
Information on repayment terms	89%	86%	87%	100%	100%
Other	27%	38%	37%	14%	30%
Are borrowers counseled relative to the receipt of loans?	90%	80%	94%	88%	100%
If so, does it explain:					
Repayment terms	88%	100%	100%	100%	100%
Interest changes	100%	100%	100%	100%	100%
Debt limitations	69%	64%	80%	33%	71%
Need to advise school upon termination	100%	100%	100%	100%	100%
Need to advise school on address change	100%	100%	100%	100%	100%
Other	75%	82%	100%	67%	100%
Are exit interviews conducted?	100%	100%	100%	100%	100%
If so, do they contain:					
Explanation of rights and obligations	94%	100%	94%	100%	100%
Copy of repayment schedule	84%	94%	89%	100%	92%
Notice to advise school of address change	98%	96%	100%	100%	100%
Inforamtion on loan amounts and interest rate	96%	98%	100%	100%	100%
Dates and amount of first payments	96%	93%	89%	100%	100%
Information on postponment, deferment, or cancellation	98%	100%	100%	100%	100%
Information on right to accelerate payments	98%	98%	100%	100%	100%
Information on additional features of promissory note	84%	80%	94%	63%	85%
Other	38%	30%	6%	38%	8%
What percentage of students terminate school without an exit inteview?	20%	10%	16%	3%	12%

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FIGURE 7.7-6

PERCENTAGE OF INSTITUTIONS EMPLOYING CERTAIN MEDIA FOR PROVIDING FINANCIAL AID INFORMATION TO STUDENT BY TYPE OF INSTITUTION (1978-1979)

Medium for Providing Information	Four-Year Public	Four-Year Private	Two-Year Public	Two-Year Private	Proprietary
None	0%	2%	0%	0%	13%
Financial Aid Fact Sheets	84%	78%	60%	40%	67%
Pamphlets/brochures	98%	90%	90%	90%	70%
Television/radio ads	56%	74%	50%	100%	20%
Newsletters	48%	41%	47%	70%	27%
Student newspapers	98%	80%	63%	50%	10%
Letter to high school seniors	46%	49%	43%	60%	30%
Representatives sent to talk high school seniors	94%	75%	90%	90%	63%

Source: SISFAP Institution Questionnaire.

students. The methods chosen differ by the type of institution, with four-year public schools tending to use the greatest variety of methods and proprietary schools the least.

Given the relatively small size of the institution sample (173 schools), especially when broken down by type of institution, the data reported from the SISFAP institution questionnaire should only be used to provide general inferences as to institution practices, and should not be thought of as providing accurate measures concerning the practices of all institutions. There also have been changes in the programs since this study was completed.

"Quality in the Basic Grant Program: Stage One," Advanced Technology, Inc. and Westat, Inc., U.S. Department of Education, 1981.

Stage One of the Quality Control Study consisted of numerous data collection efforts designed to estimate error in the Pell Grant program. As part of the study, 4,000 Pell Grant recipients and their parents were interviewed. These interviews contained questions concerning whether recipients or dependent recipients' parents received assistance in completing the Pell application from sources outside the family, on the source of the assistance, and whether the recipient was satisfied with the assistance received. The responses to these questions provide another measure of the availability of program information in the Pell program, and are presented in Figures 7.7-7 and 7.7-8

"Survey of Student Consumer Complaints for October 12-20, 1982," Division of Training and Dissemination, U.S. Department of Education.

The Information Section of the Division of Training and Dissemination, in conjunction with Biospherics, Inc., conducts a survey of all correspondence (mail, telephone calls, etc.) received from Congress, the financial aid community, and the general public. The results for the period of October 12-16, 1982 is attached to this document in Appendix B, give an indication of the type and volume of questions being asked concerning student financial aid.

"Cooperative Institutional Research Program (CIRP)," American Council on Education and University of California at Los Angeles, 1981.

The CIRP study is an annual survey of full-time, first-time college freshmen contacted at orientation at a sample of postsecondary institutions. Questions

FIGURE 7.7-7

PERCENTAGE OF PELL RECIPIENTS AND DEPENDENT RECIPIENTS' PARENTS RECEIVING ASSISTANCE IN COMPLETING THE PELL APPLICATION FROM VARIOUS SOURCES (1980-81)

Source of Assistance	Recipient	Dependent Recipients' Parents
Financial Aid Officer	25%	7%
Faculty or counselor at school	8%	3%
High school counselor	8%	5%
Toll free number	4%	2%
Department of Education	1%	0.2%
ACT	1%	1%
Friends	12%	4%
Other	3%	4%

Source: Stage One QC Study.

FIGURE 7.7-8

PERCENTAGE OF REQUESTS NOT SATISFIED WITH THE ASSISTANCE THEY RECEIVED FROM THE SOURCE (1980-81)

Source	Recipient
High school counselor	6%
Faculty or counselor at school	7%
Financial aid officer	8%
Friends	8%
Toll free number	9%
Department of Education	23%
ACT	24%

Source: Stage One QC Study.

Note: For the most part, the numbers presented in this chart are based on a small number of cases; therefore, the results should be used with great caution.

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concerning students' knowledge of the Pell and GSL programs were asked; the responses given will provide information on the availability of program information for applicants/families for those two programs (Figure 7.7-9).

From the responses, it appears that for dependent students, lack of program knowledge is bi-modal, with students in the lowest and highest income categories having the least program knowledge. Independent students also seem to have less program knowledge than dependent students in the middle three income categories.

Site Visits

Information collected during the institutional site visits and public hearings provides some insight into financial aid administrators' concerns about the availability of program information. Students were not interviewed during this study, although other participants noted aspects of information availability that seem to affect their students.

The timing and availability of program information were major themes at the four public hearings. Some of the points raised include:

- Prepared comments by three high school counselors indicated the problems they encountered as a result of the delayed Federal decision about the Pell award schedule and application form.
- Numerous financial aid administrators at four-year institutions commented that delayed decisions about Pell awards caused major problems for delivery of all programs during the past year.
- Comments by two administrators from Wayne County Community College (Detroit) expressed extreme concern about their inability to get information to older returning students.

During the site visits, it was apparent that FAAs are concerned about getting pre-application information to students. FAAs who prepared information early in the pre-application cycle, even without firm Federal or state decisions about award levels, expressed some concerns about delays in Federal and state decisions. For example:

- California State University at Long Beach prepares an annual information report for students containing general information and the previous year's award data for use by students. Delays in state decisions were considered more of a problem than delays in Federal decisions.

FIGURE 7.7-9

PERCENTAGE OF FULL-TIME, FIRST-TIME FRESHMEN NOT HAVING HEARD OF THE PROGRAM BY DEPENDENCY STATUS AND INCOME GROUP*
(1981)

Program	Dependent					Independent	Total
	$0 - $6,000	$6,000 - $15,000	$15,000 - $20,000	$20,000 - $30,000	Over $30,000		
Pell	41%	19%	22%	26%	48%	41%	37%
GSL	62%	53%	49%	44%	48%	63%	49%

Source: CIRP file.

* Given the tremendous size of the CIRP file, for cost purposes these estimates were generated using only every 25th record on the file.

- Stanford University also disseminates information well in advance of Federal decisions about aid.

At the other extreme, institutions that waited until Federal decisions were made expressed extreme concern about the availability of program information. More generally, a concern was also expressed that the news media, through their reports on proposed cuts in student aid, had alarmed many potential students in part by not reporting the whole story. Some students may not have attended college or applied for aid due to these reports. FAAs also noted that the lateness of Federal decisions is a major problem for their students, who are unable to predict the requirements for recipients. For example, decisions regarding draft registration and the GSL needs test were made very late.

The views of FAAs and high school counselors provide only a very indirect indicator of the availablity of program information to students. It does, however, point to a concern these professionals have that accurate information about Federal programs is not getting to potential students in time for them to make informed decisions about college. Many high school counselors do not feel secure about providing informatin to their students, due to the constant changes in procedures and requirements.

The lenders visited generally do not disseminate information to students prior to receiving applications. Students tend to contact their schools rather than lenders during the pre-application period. However, once a loan application is received, lenders must respond to a number of phone and mail inquiries through the life of the loan (if approved). For example, Chase Manhattan Bank has developed a Customer Service unit whose sole responsibility is to deal with these inquiries or to contact borrowers about their loans. New York State also requires face-to-face interviews with first time borrowers.

Some state agencies are also actively involved in disseminating information. For example, Vermont implements its TRIO programs at the state level, performing outreach activities to all state residents.

7.7.3 EFFECT BY ACTIVITY

Because information is often disseminated in a package for all three program components under consideration, this section combines consideration of the Pell, GSL, and Campus-Based Subsystems.

Pre-Application Subsystem

Participating postsecondary institutions are required by law and regulation to disseminate information on aid programs to potential applicants. Some state agencies also disseminate this information; few lenders are involved in this activity. The Federal government also provides handbooks and manuals, and answers mail and phone inquiries.

According to the CIRP survey, 37 percent of 1981 full-time freshmen surveyed were not familiar with the Pell program. Independent students and low- and high-income dependent students had the highest rates of unfamiliarity. For GSL, CIRP reported lack of familiarity for 49 percent of the freshmen surveyed; again program knowledge is lowest for independent students and high- and low-income dependent students. The vast majority of high school seniors surveyed responded that they did not know or were not familiar with the three Campus-Based programs. More information on these issues is presented in the previous section. It should be noted that availability of information is also affected by a number of intervening variables, such as the applicants' ability to collect, assimilate, and understand information, and the stability of the programs from year to year.

Student Application, Eligibility Determination, and Benefit Calculation Subsystems

Although the inquiries received by the Federal government on individual aspects of these subsystems are small, the sum of these inquiries is relatively large, especially in view of the small time period covered by Appendix B. These rates of inquiry reflect a need for information on the part of applicants. It is probably safe to assume that institutions receive a substantially larger volume of inquiries, since students are generally closer in location to the schools, and because of the large role schools play in the delivery of aid. Lenders and state agencies are also contacted for information.

Funds Disbursement Subsystem

Student borrowers must, according to law and regulations, receive information on their rights and responsibilities when they sign the NDSL or GSL promissory notes. Some schools and lenders also provide face-to-face counseling to students, and schools must conduct NDSL exit interviews. However, according to SISFAP, 10 to 20 percent of NDSL borrowers leave school without a face to face exit interview. As noted in the previous sections, the actual content of these documents and interviews, and the number of contacts with students, vary depending on the individual participants.

Schools must issue award letters for Campus-Based aid, and generally also notify students of their Pell awards. Some students reportedly are confused by the SAR, which is used to report Pell eligibility. Again, the actual content of these notices varies by school.

The method by which students are notified of disbursements also varies by school. Most Pell and Campus-Based awards are credited to the student's account, paid by check, or a combination of the two. However, the student must sign GSL checks, and CW-S pay must be disbursed by check.

Account Reconciliation Subsystem

NDSL and GSL repayment schedules also generally include statements of student rights and responsibilities. Loan servicers and state agency collectors noted that many borrowers who have delinquent payments are not familiar with eligibility for deferments, and with the ability to request forebearance. This suggests that borrowers either did not receive the information, or failed to read and/or retain it.

7.8 DISTRIBUTION OF AID (APPLICANTS/FAMILIES)

7.8.1 OVERVIEW

Definition

Distribution of aid is primarily an outcome of decisions relating to the programs rather than to the delivery system; however, the delivery system does have a marginal impact on this effect. As used in this model, distribution of aid refers to the impact the delivery system has on the amount and type of aid students receive, grouping students by socioeconomic status and type of school attended. The delivery system affects distribution primarily by allowing various participant groups to make discretionary decisions. For example, a student may or may not decide to begin and complete the application process; a lender may or may not decide to make a loan; an institution may use any of a variety of methods of aid packaging. Distribution of aid is also a secondary effect of many of the delivery system effects noted earlier, such as "miscalculation/error." However, as used in this model, distribution of aid does not include the impact of these other effects because the model is focused on primary rather than secondary effects.

Summary

Data sources reflecting distribution of aid to applicants determined by delivery system features and/or decisions made by participants within the delivery system were researched to assess this effect. The FISAP and SISFAP studies, a 1979 GAO report on financial aid award consistencies, and the BEOG 1979-80 End-of-Year Report were utilized for the assessment. As expected, the data indicate that the ratio of recipients to eligible potential applicants generally declines as income increases. The large standard deviations found in the amounts of Campus-Based aid awarded across income categories indicate variation in award packaging philosophies across institutions, as well as variations in the adequacy of both Federal and non-Federal resources to serve the needs of applicant populations. However, 66 percent of institutions responded in the SISFAP study that they based award packages strictly upon need or need before any other criteria. The data also show a significant percentage of applicants do not receive the aid for which they applied. For the Pell Grant program, 20 percent of apparently eligible applicants never received a grant. In the SISFAP study, 30 percent of all GSL applicants and 32 percent of the NDSL applicants did not receive a loan. For the CW-S and SEOG programs, 41 percent of the applicants were denied aid. Students not receiving a GSL responded that the main reason their application was declined was due to their family not being established customers with the lender. No reasons for being denied aid under the Campus-Based programs were reported, but the two primary ones were undoubtedly lack of eligibility or lack of funds. Students surveyed who did not apply for the various aid programs responded overwhelmingly (70 percent) that their reason for not applying was because they believed they were ineligible for the program. See also section 5.7.

7.8.2 FINDINGS

Data sources researched for this effect were limited to those which might reflect distribution of aid to applicants based upon delivery system activities and/or decisions made by the various participants within the delivery system (i.e., the Federal government, the institution, and the applicant). Data showing distribution of aid by race, gender, region of residence, age, year in school, etc., categories were omitted from this section as being outside the definition of the effect.

Fiscal Operations Report and Application to Participate

Included in section 5.7 on the distribution of aid for institutions were several analyses of the FISAP file for 1979-80 and 1980-81. One of these analyses bears repeating here because it also impacts on the distribution of aid for applicants. In Figures 7.8-1, 7.8-2, and 7.8-3 the percentage of applicants becoming recipients is computed for the Campus-Based programs by type of school and income class.

As expected, the ratio of recipients to applicants generally declines as income increases, probably due to lower eligibility rates among higher-income students, and/or institution packaging philosophies which distribute aid to the needier students. This ratio would probably increase as costs of attendance increase, if it was possible to plot this relationship.

While variations by institution type are not large, the four-year private institutions seem able to provide some Campus-Based aid to a larger share of their eligible populations than can the four-year public institutions. Again, the ratherlarge standard deviations in Figures 7.8-1, 7.8-2 and 7.8-3 indicate great

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FIGURE 7.8-1

RECIPIENTS AS A PERCENTAGE OF POTENTIAL ELIGIBLE APPLICANTS FOR THE CW-S PROGRAM BY INSTITUTION TYPE, DEPENDENCY STATUS AND INCOME: 1979-80, 1980-81 (STANDARD DEVIATION IN PARENTHESES)

Institution Type	Dependent						Independent	Graduate
	$0-6,000	$6,000 12,000	$12,000 18,000	$18,000 24,000	$24,000 30,000	Over 30,000		
1979-80								
Four-Year Public	29% (18)	28% (17)	26% (16)	20% (16)	14% (14)	10% (15)	24% (15)	26% (21)
Four-Year Private	42% (26)	42% (24)	42% (24)	39% (24)	34% (24)	26% (24)	28% (23)	26% (28)
Two-Year Public	25% (19)	23% (18)	21% (17)	17% (17)	15% (19)	10% (19)	15% (19)	N/A
Two-Year Private	32% (29)	34% (30)	32% (28)	31% (28)	24% (28)	20% (25)	18% (22)	N/A
Proprietary	8% (19)	8% (18)	8% (18)	7% (17)	7% (18)	7% (19)	6% (15)	N/A
Total/Mean	23% (25)	23% (25)	23% (24)	21% (24)	19% (23)	15% (22)	16% (20)	26% (26)
1980-81								
Four-Year Public	25% (17)	26% (16)	26% (16)	22% (15)	18% (15)	12% (14)	21% (13)	24% (20)
Four-Year Private	40% (26)	41% (24)	42% (23)	41% (24)	38% (24)	28% (23)	27% (23)	26% (28)
Two-Year Public	21% (18)	21% (16)	20% (11)	18% (16)	6% (18)	11% (19)	13% (12)	N/A
Two-Year Private	28% (28)	27% (27)	30% (27)	29% (27)	27% (29)	20% (26)	17% (21)	N/A
Proprietary	4% (13)	4% (11)	4% (12)	4% (13)	4% (13)	4% (14)	2% (08)	N/A
Total/Mean	21% (24)	21% (23)	22% (23)	21% (23)	20% (24)	16% (21)	14% (18)	25% (25)

Source: FISAP

Note: Potential eligible applicants are defined as any student enrolled at least half-time who meet citizenship requirements and have completed an application. Therefore, this category includes students who do not meet other eligibility criteria, or who have their needs met by other sources of aid.

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FIGURE 7.8-2

RECIPIENTS AS A PERCENTAGE OF POTENTIAL ELIGIBLE APPLICANTS FOR THE SEOG PROGRAM BY INSTITUTION TYPE, DEPENDENCY STATUS AND INCOME: 1979-80, 1980-81 (STANDARD DEVIATION IN PARENTHESES)

Institution Type	Dependent						Independent
	$0-6,000	$6,000 12,000	$12,000 18,000	$18,000 24,000	$24,000 30,000	Over 30,000	
1979-80							
Four-Year Public	24% (19)	23% (17)	17% (16)	11% (13)	6% (11)	3% (07)	18% (15)
Four-Year Private	36% (25)	37% (24)	33% (22)	26% (22)	16% (28)	7% (13)	21% (19)
Two-Year Public	15% (17)	14% (16)	10% (13)	7% (11)	4% (11)	2% (11)	12% (12)
Two-Year Private	27% (27)	28% (27)	26% (25)	20% (23)	14% (22)	7% (15)	18% (21)
Proprietary	29% (30)	26% (30)	24% (29)	19% (28)	15% (27)	9% (23)	23% (25)
Total/Mean	27% (26)	26% (26)	23% (25)	17% (23)	12% (20)	6% (15)	20% (21)
1980-81							
Four-Year Public	23% (18)	24% (18)	21% (16)	15% (15)	10% (16)	5% (12)	17% (13)
Four-Year Private	34% (24)	36% (23)	35% (22)	30% (21)	23% (21)	12% (13)	20% (20)
Two-Year Public	15% (17)	15% (16)	13% (14)	10% (13)	6% (12)	4% (11)	12% (12)
Two-Year Private	27% (28)	26% (25)	27% (25)	23% (23)	19% (24)	11% (20)	19% (21)
Proprietary	25% (28)	2% (28)	23% (28)	19% (23)	17% (28)	11% (24)	21% (21)
Total/Mean	25% (25)	26% (24)	24% (24)	20% (23)	16% (22)	9% (18)	18% (19)

Source: FISAP

Note: Potential eligible applicants are defined as any student enrolled at least half-time who meet citizenship requirements and have completed an application. Therefore, this category includes students who do not meet other eligibility criteria, or who have their needs met by other sources of aid.

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FIGURE 7.8-3

RECIPIENTS AS A PERCENTAGE OF POTENTIAL ELIGIBLE APPLICANTS FOR THE NDSL PROGRAM BY INSTITUTION TYPE, DEPENDENCY STATUS AND INCOME: 1979-80, 1980-81 (STANDARD DEVIATION IN PARENTHESES)

Institution Type	Dependent						Independent	Graduate
	$0-6,000	$6,000 12,000	$12,000 18,000	$18,000 24,000	$24,000 30,000	Over 30,000		
1979-80								
Four-Year Public	26% (19)	25% (17)	23% (16)	19% (15)	15% (14)	11% (15)	28% (18)	24% (19)
Four-Year Private	35% (26)	36% (25)	35% (24)	33% (24)	28% (22)	19% (20)	29% (23)	36% (25)
Two-Year Public	5% (09)	5% (09)	4% (08)	4% (08)	3% (10)	2% (10)	6% (10)	N/A
Two-Year Private	16% (24)	16% (22)	16% (22)	16% (23)	13% (22)	10% (20)	14% (22)	N/A
Proprietary	23% (30)	22% (29)	20% (30)	20% (29)	21% (32)	17% (31)	23% (28)	N/A
Total/Mean	22% (27)	22% (26)	21% (26)	20% (25)	18% (25)	13% (22)	21% (24)	34% (28)
1980-81								
Four-Year Public	24% (18)	25% (16)	25% (17)	23% (16)	20% (16)	14% (15)	24% (15)	35% (25)
Four-Year Private	33% (26)	34% (25)	35% (24)	34% (24)	31% (24)	21% (20)	25% (22)	30% (29)
Two-Year Public	5% (12)	5% (10)	5% (10)	5% (09)	4% (10)	4% (11)	6% (10)	N/A
Two-Year Private	13% (21)	14% (22)	15% (24)	14% (23)	13% (22)	11% (21)	11% (20)	N/A
Proprietary	20% (29)	20% (28)	19% (28)	18% (29)	19% (31)	18% (31)	20% (26)	N/A
Total/Mean	21% (26)	21% (25)	21% (25)	20% (25)	19% (25)	15% (22)	18% (22)	31% (28)

Source: FISAP.

Note: Potential eligible applicants are defined as any student enrolled at least half-time who meet citizenship requirements and have completed an application. Therefore, this category includes students who do not meet other eligibility criteria, or who have their needs met by other sources of aid.

variation in the rate at which Campus-Based aid is provided to eligible potential applicants, even controlling for institution type and student income. Whether this variation reflects differences in institutional packaging philosophy, differences in the proportions of potential applicants who meet all eligibility criteria, differences in availability of Federal and non-Federal aid resources, or undesirable randomness in the delivery of Campus-Based aid is a question requiring further investigation.

"Inconsistencies in Awarding Financial Aid to Students Under Four Federal Programs", U.S. General Accounting Office, May 11, 1979.

This report reviewed award procedures at 23 institutions in 10 states for the 1976-77 school year. GAO calculated average current need (i.e., the difference between the formula-computed need estimate and the average Campus-Based aid allocation per recipient) for each of the 23 institutions, and found a range of unmet need from -$31 to $1,743. GAO attributed the $1,774 spread to a non-need-based method for allocating funds across states, and to inaccuracies in institutions' applications. However, two reservations should be noted. First, the small total number of institutions prevented GAO from examining variations by institution type. Second, the delivery system may have begun operating in a more uniform manner since 1976-77.

"Basic Grants: End-of-Year Report 1979-80", U.S. Department of Education, 1980.

This document constitutes the most recently available OSFA report on the distribution of Pell Grant aid by categories of applicants/families. According to the report, 7.6 percent of all 1979-80 applications were returned for insufficient data and never resubmitted for processing, down from 12.5 percent the preceding year. These figures probably combine an undesirable delivery system effect (eligible applicants discouraged by the difficulty of the application process) and a desirable program effort (ineligible applicants trapped by processor edits and discouraged from reapplying).

Additional data from the end-of-year report reveals that of 3,135,102 qualified applicants, 2,567,875, or 81 percent, became recipients. Therefore, almost 20 percent of the people who applied for a Pell Grant and qualified for it never actually received it. The degree to which problems with the delivery system (long turnaround time, problems with the application process, etc.) influenced their decisions is impossible to determine. Unfortunately, the breakdown of income for applicants and recipients was not computable from the report, so the percentage of qualified applicants and recipients could not be broken down by income category.

"A Study of Program Management Procedures in the Campus-Based and Basic Grants Programs (SISFAP), Applied Management Sciences, Inc., U.S. Department of Education, 1980

SISFAP consisted of a series of questionnaires and other data collection efforts, conducted in 1978-79 and followed-up in 1979-80, designed to provide information on the provision of student financial aid. The student questionnaire, consisting of a representative sample of 10,761 students in postsecondary institutions, contained information useful in assessing the distribution of aid.

Figure 7.8-4 presents the percentage of students applying for aid for the five major Federal programs, broken down by dependency status and income category. Given the great changes in borrowing rates occurring in the GSL program since the time the survey was done, the GSL application rates are probably not reflective of current borrowers' behavior.

Figure 7.8-5 presents the percentage of applicants who become recipients for each of the five programs by dependency status and income category. For the two grant programs, Pell and SEOG, the percentage of recipients to applicants declines as income increases, while for the other three programs (CW-S, NDSL, and GSL) the percentage remains relatively consistent across income categories.

In the GSL program, lender decisions concerning the provision of loan money affect the distribution of aid. Students in the SISFAP sample who had applied for but had not received a GSL were asked to specify the reasons. Figure 7.8-6 displays the responses that were given. The responses listed in Figure 7.8-6 reveal that with the exception of the "other" category, the most common reason given by GSL applicants who did not become recipients is that the lender rejected them because their families were not established customers. The second most common response was that the application process was too long and/or complex. Given the changes in the GSL program that have occurred since the SISFAP study was done, this data should only be used to provide a general impression as to why some GSL applicants do not become recipients.

FIGURE 7.8-4

PERCENT OF STUDENTS WHO APPLY FOR THE PELL, CAMPUS-BASED, AND GSL PROGRAMS BY DEPENDENCY STATUS AND INCOME GROUP (1979-1980)

		Campus-Based			
	PELL	SEOG	CW-S	NDSL	GSL
Dependent					
Under $6,000	43%	10%	11%	10%	8%
$6,000-$11,999	81%	22%	30%	22%	11%
$12,000-$17,999	62%	15%	18%	18%	12%
$18,000-$23,999	51%	12%	17%	18%	17%
$24,000 & Over	20%	5%	8%	7%	13%
Independent					
Under $3,000	59%	19%	18%	20%	12%
$3,000-$5,999	61%	14%	17%	20%	11%
$6,000-$8,999	46%	10%	7%	11%	9%
$9,000-$11,999	26%	5%	9%	8%	10%
$12,000 & Over	19%	4%	1%	4%	8%
TOTAL	**42%**	**11%**	**13%**	**13%**	**12%**

Source: SISFAP Student Questionnaire

FIGURE 7.8-5

PERCENT OF APPLICANTS WHO BECOME RECIPIENTS FOR THE PELL, CAMPUS-BASED, AND GSL PROGRAMS BY DEPENDENCY STATUS AND INCOME GROUP (1979-1980)

		Campus-Based			
	PELL	SEOG	CW-S	NDSL	GSL
Dependent					
Under $6,000	83%	68%	59%	72%	68%
$6,000-$11,999	92%	68%	66%	74%	67%
$12,000-$17,999	81%	65%	59%	72%	66%
$18,000-$23,999	69%	51%	55%	69%	68%
$24,000 & Over	53%	35%	52%	59%	80%
Independent					
Under $3,000	99%	74%	60%	78%	50%
$3,000-$5,999	81%	57%	72%	58%	67%
$6,000-$8,999	64%	65%	57%	75%	67%
$9,000-$11,999	59%	45%	25%	45%	42%
$12,000 & Over	22%	13%	31%	35%	74%
TOTAL	**75%**	**59%**	**59%**	**68%**	**70%**

Source: SISFAP Student Questionnaire

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FIGURE 7.8-6

GSL APPLICANT REASONS GIVEN FOR NOT RECEIVING LOAN (1979-1980)

Reason Given For GSL Applicant Not Becoming a Recipient	Percentage	Weighted N
Application process too long and/or complex	12%	8,461
Rejected by lender because family was not established customer	25%	17,872
Rejected by lender because applicant was a freshman	3%	2,065
Rejected by lender because enrolled in vocational course	2%	1,465
Rejected by lender because did not qualify for subsidy	11%	7,642
Other	54%	38,586

Source: SISFAP Student Questionnaire

In addition, the student questionnaire asked respondents not applying for GSL to specify their reasons for not applying. Figure 7.8-7 lists the results. The responses indicate that students did not apply for GSLs for personal reasons (had no need, did not want to take on debt) and not because of program or delivery system problems (forms too hard, couldn't find a lender).

Finally, those students not applying for financial aid in general were asked their reasons for not applying. The responses given are explained in Figure 7.8-8. The results show that the majority of students do not apply for financial aid because they think they are ineligible. It is interesting to note that the percentage of students responding that they did not apply for financial aid because they they were ineligible is relatively constant across income groups. This may be because they are attending non-eligible programs or because they have incorrect perceptions as to the eligibility requirements for financial aid. FAAs generally attribute these problems to the constant changes in eligibility requirements. More research would need to be done to sort out which explanation is more accurate.

The SISFAP study also asked institutions (a representative sample of 173) about their packaging philosophies. The responses indicate that approximately 66 percent of schools package the neediest students first, regardless of other considerations. The vast majority of the remaining schools use need in conjunction with other considerations. Estimates of the percentage of students rejecting various forms of financial aid was also provided in SISFAP. Approximately one percent of students rejected CW-S and NDSL awards; almost no students rejected Pell, SEOG, or GSL aid.

7.8.3 EFFECT BY ACTIVITY

Program changes, which fall into the pre-application subsystem, can affect distribution of aid. However, this analysis is focused on the effects of the delivery system, not of the programs. The following sections describe the impact of delivery system activities on this effect.

FIGURE 7.8-7

STUDENT REASONS FOR NOT APPLYING FOR GSL (1979-1980)

Reason Given For Not Applying for GSL	Percentage	Weighted N
No Need	39%	787,000
Thought own or parent's income was too high	6%	124,000
Did not want to take on debt	55%	1,106,000
Forms were too difficult to complete	1%	30,000
Could not find a lender	5%	95,000
Other	11%	221,000

Source: SISFAP Student Questionnaire

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FIGURE 7.3-8

STUDENT REASONS FOR NOT APPLYING FOR FINANCIAL AID (1979-1980)

Reason Given For Not Applying for GSL	Percentage	Weighted N
Did not know about financial aid	10%	338,000
Parents did not want to complete financial statement	10%	318,000
Did not think they were eligible	70%	2,334,000
Grades were too low	3%	110,000
Enrolled part-time only	4%	147,000
Application forms and procedures too complicated	7%	227,000
Other	27%	900,000

Source: SISFAP Student Questionnaire

Pell Grant Component

Student Application, Eligibility Determination, and Benefit Calculation Subsystems

Data from the 1979-80 BEOG End-of-Year Report show that 19 percent of applicants apparently qualified for a Pell Grant did not become recipients, and that 7.6 percent of applications rejected by the central processor were not revised and resubmitted for further consideration. The extent to which this behavior is caused by the delivery system cannot be determined from data currently available.

Validation can have either a positive or negative effect upon the distribution of aid to applicants. The positive effect is that validation requirements may dissuade applicants from supplying incorrect data on the application form. The negative effect is that eligible applicants may be influenced not to complete the application process because of the burden of complying with validation requirements.

SISFAP data collected for the 1979-80 award year show a generally inverse relationship between level of income and probability of an applicant applying for and receiving a Pell Grant, for both dependent and independent students.

GSL Component

Student Application, Eligibility Determination, and Benefit Calculation Subsystems

Data from SISFAP indicate that the vast majority of students not applying for GSL made the decision based upon personal reasons (e.g., no need, did not want to go into debt, etc.). Of those students applying for a GSL, 70 percent became recipients, according to SISFAP data. Of the students applying for, but not receiving a GSL, 25 percent stated the reason for their rejection was that their family was not an established customer of the lender.

The SISFAP data also show that the percentages of students applying for and receiving GSLs are fairly consistent across all income categories for both dependent and independent students.

Campus-Based Component

Student Application, Eligibility Determination, and Benefit Calculation Subsystems

SISFAP data show that the percentage of students applying for Campus-Based aid is relatively low for all three programs. For the 1979-80 award year, only 11 percent of potentially eligible students applied for SEOG, 13 percent applied for CW-S, and 13 percent applied for NDSL. These percentages varied little across income categories for both dependent and independent students.

Analysis of the FISAP data indicates that approximately 25 percent of potential applicants received Campus-Based aid. SISFAP shows that 60 percent of actual applicants received Campus-Based aid. From these analyses, it can be inferred that both the need and demand for Campus-Based aid exceeds the supply of funds available. The percentage of Campus-Based aid distributed to students within specific income categories and a sampling of institutional packaging philosophies show a majority (nearly 2/3) of schools package their aid strictly according to need.

Funds Disbursement Subsystem

The SISFAP student file reflects the number of students rejecting various forms of Campus-Based aid offered by institutions. Approximately one percent of the recipients rejected CW-S and NDSL. Almost no recipients rejected SEOG.

APPENDIX A:

CHART OF CURRENT DELIVERY SYSTEM ACTIVITIES

CHART OF CURRENT DELIVERY SYSTEM ACTIVITIES

This chart lists the activities by subsystem which are currently utilized to implement the Pell Grant, GSL (state agency) and Campus-Based programs. Activities which are at least partially integrated across programs are marked with an asterisk (*).

THE PELL COMPONENT

1. Pre-Application Subsystem

- 1.1 ED Budget Forecasting
- *1.2 ED Budget Development
- *1.3 Development and Promulgation of Federal Regulations
- *1.4 ED Forms Development
- *1.5 ED Information Dissemination and Training
- *1.6 ED Contract Development and Support
- *1.7 ED Systems Planning and Revision
- *1.8 ED Determination of Institutional Eligibility and Certification
- 1.9 Establishment of Payment Systems for RDS Institutions[1]
- 1.10 ED Initial Authorization of Funds to RDS institutions
- *1.11 Institutional Planning and Information Dissemination

2. Student Application Subsystem

- *2.1 Student Application

3. Student Eligibility Determination Subsystem[2]

- *3.1 Student Eligibility Determination
- *3.2 Validation

4. Student Benefit Calculation Subsystem[2]

- *4.1 Student Award Calculation (RDS)
- *4.2 Student Award Calculation (ADS)

THE GSL COMPONENT

1. Pre-Application Subsystem

- 1.1 ED Budget Forecasting
- *1.2 ED Budget Development
- 1.3 ED Clearance of GA Regulations, Forms and Manuals
- *1.4 Development and Promulgation of Federal Regulations
- *1.5 ED Forms Development
- *1.6 ED Information Dissemination and Training
- *1.7 ED Contract Development and Support
- *1.8 ED Systems Planning and Revision
- *1.9 ED Determination of Institutional Eligibility and Certification
- 1.10 Optional GA Determination of Institutional Eligibility
- 1.11 GA Determination of Lender Eligibility
- *1.12 Institutional Planning and Information Dissemination
- 1.13 GA Planning and Information Dissemination
- 1.14 Lender Planning

2. Student Application Subsystem

- *2.1 Student Application

3. Student Eligibility Determination Subsystem[2]

- *3.1 Student Eligibility Determination
- *3.2 Optional Validation

4. Student Benefit Calculation Subsystem[2]

- *4.1 Institutional Determination of Loan Limits
- 4.2 Lender Determination of Loan Amount
- 4.3 Guarantee Approval

THE CAMPUS-BASED COMPONENT

1. Pre-Application Subsystem

- *1.1 ED Budget Development
- *1.2 Development and Promulgation of Federal Regulations
- *1.3 ED Forms Development
- *1.4 ED Information Dissemination and Training
- *1.5 ED Contract Development and Support
- *1.6 ED Systems Planning and Revision
- *1.7 ED Determination of Institutional Eligibility and Certification
- 1.8 Establishment of Payment Systems for Institutions[1]
- 1.9 ED State Allotment
- 1.10 Institutional Application for Funds
- 1.11 Tentative Institutional Allocation of Funds
- 1.12 Appeal of Tentative Allocation
- 1.13 Final Allocation
- 1.14 Low-Income School List Development
- *1.15 Institutional Planning and Information Dissemination

2. Student Application Subsystem

- *2.1 Student Application

3. Student Eligibility Determination Subsystem[2]

- *3.1 Student Eligibility Determination
- *3.2 Optional Validation

4. Student Benefit Calculation Subsystem[2]

- *4.1 Student Award Calculation

A-1

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[1] This activity is identical and completely integrated for the Pell and Campus-Based components.

[2] The starred activities under these subsystems are generally integrated at the institutional level, when the financial aid office determines aid packages for each student.

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CHART OF CURRENT DELIVERY SYSTEM ACTIVITIES (Continued)

THE PELL COMPONENT (CONT'D)

5. Funds Disbursement Subsystem

5.1 ED Disbursement to Institutions[3]
5.2 RDS Institution Disbursement to Student
5.3 ED Disbursement to ADS Students
*5.4 Refunds

6. Account Reconciliation Subsystem

6.1 Student Account Reconciliation
6.2 Institution Account Reconciliation
*6.3 Institution Audit
*6.4 ED Program Review of Institutions

THE GSL COMPONENT (CONT'D)

5. Funds Disbursement Subsystem

5.1 Issuance of Promissory Note
5.2 Loan Disbursement
*5.3 Refunds
5.4 Note Transfer and/or Servicing Contract
5.5 Interest and Special Allowance Payments
5.6 ED Advances to GAs
5.7 Administrative Cost Allowance Payment to GAs

6. Account Reconciliation Subsystem

6.1 Enrollment Status Reporting
6.2 Loan Consolidation
6.3 Development of Repayment Schedule
6.4 Loan Repayment
6.5 Repayment Deferment
6.6 Claims and Collections
6.7 Lender Reporting
6.8 GA Reporting
6.9 Lender Reviews
6.10 GA Audits
6.11 ED Program Review of GAs
*6.12 Institutional Audit
*6.13 ED Program Review of Institutions

THE CAMPUS-BASED COMPONENT (CONT'D)

5. Funds Disbursement Subsystem

5.1 ED Disbursement to Institutions[3]
5.2 Award Acceptance
5.3 SEOG Disbursement
5.4 NDSL Disbursement
5.5 CW-S Disbursement
*5.6 Refunds

6. Account Reconciliation Subsystem

6.1 NDSL Repayment
6.2 NDSL Deferment
6.3 NDSL Cancellation
6.4 NDSL Collections
6.5 Institutional Account Reconcilation
*6.6 Institutional Audit
*6.7 ED Program Review of Institutions

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[2] The starred activities under these subsystems are generally integrated at the institutional level, when the financial aid office determines aid packages for each student.

[3] The initial disbursement of Pell and Campus-Based funds is completely integrated.

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APPENDIX B:

SURVEY OF CONSUMER COMPLAINTS FOR OCTOBER 12-26, 1982

(DIVISION OF TRAINING AND DISSEMINATION,
U.S. DEPARTMENT OF EDUCATION, AND
BIOSPHERICS, INC.)

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CONTROL MAIL
TABLE A

	SUBJECT	NUMBER OF LETTERS	PERCENT OF TOTAL	NUMBER OF LETTERS LAST COMPARABLE PERIOD	PERCENT OF TOTAL	PERCENT CHANGE SINCE LAST COMPARABLE PERIOD
1.	Request for general student aid information	35	20.2	25	17.4	+40
2.	Request for specific OSFA materials	0	N.A.	1	.7	N.A.
3.	Request for information on status of Pell Grant applications	13	7.5	11	7.6	+18
4.	Request for help with corrections to SAR	0	N.A.	4	2.8	N.A.
5.	Request for review of Pell Grant ineligibility	24	13.9	16	11.1	+50
6.	Request for explanation of Pell Grant formula	9	5.2	8	5.6	+13
7.	Pell Grant payment problem or question	4	2.3	5	3.5	-20
8.	Problem with OSFA program deadlines	2	1.1	NEW CATEGORY		
9.	Questions or complaints on dependent/ independent status FOR Pell Grant Program	5	2.9	2	1.4	+250
10.	Referral to MDE agency (CSS, ACT, PHEAA)	0	0	0	N.A.	N.A.
11.	Other programs:					
	a. general Federal loan information	3	1.7	9	6.2	-67
	b. search for lender	3	1.7	0	N.A.	N.A.
	c. repayment questions for Federal loan programs	7	4.0	2	1.4	-50
	d. campus based program questions or problems	1	.6	1	.7	N.A.

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CONTROL MAIL
TABLE A (continued)

SUBJECT	NUMBER OF LETTERS	PERCENT OF TOTAL**	NUMBER OF LETTERS LAST COMPARABLE PERIOD	PERCENT OF TOTAL	PERCENT CHANGE SINCE LAST COMPARABLE PERIOD
12. Complaint against lending institution or school	2	1.1	0	N.A.	N.A.
13. Opinion expressed	10	5.8	7	4.9	+43
14. Complaints against administration budget proposals	12	6.9	39	27.1	-69
15. New GSL Provisions	5	2.9	6	4.2	-17
16. Other	38	22.0	8	5.6	+375*
a. late Federal student application forms for 1983-84	(27)	(15.6)			
b. Social Security/VA	(6)	(3.5)			
c. foreign student eligibility/participation	(2)	(1.2)			
d. miscellaneous	(3)	(1.7)			
TOTAL	173		144		+16

*In spite of large percentage changes, the actual change can be unimportant when very small numbers are involved.

**Total does not equal 100 percent due to rounding.

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NON-CONTROL MAIL
TABLE B

	SUBJECT	NUMBER OF LETTERS	PERCENT OF TOTAL	NUMBER OF LETTERS LAST COMPARABLE PERIOD	PERCENT OF TOTAL	PERCENT CHANGE SINCE LAST COMPARABLE PERIOD
1.	Request for general student aid information	1,044	29.2	585	31.1	+78
2.	Request for specific OSFA materials	2,256	63.1	1,020	54.2	+221
3.	Request for information on status of Pell Grant applications	8	.2	5	.3	+60
4.	Request for help with corrections to SAR	2	.1	5	.3	+60
5.	Request for review of Pell Grant ineligibility	5	.1	5	.3	N.A.
6.	Request for explanation of Pell Grant formula	8	.2	3	.2	+267
7.	Pell Grant payment problem or question	29	.8	37	2.0	-22
8.	Problem with OSFA deadlines	7	.2	2	.1	+350
9.	Questions/complaints on dependent/ independent status and definitions for Pell Grant program	5	.1	7	.4	-29
10.	Referral to MDE agency (CSS, ACT, PHEAA)	11	.3	11	.6	N.A.
11.	Other programs:					
	a. general Federal loan information	35	.9	50	2.7	-30
	b. search for lender	1	N.A.	2	.1	-50
	c. repayment questions for Federal loans	8	.2	13	.7	-38
	d. campus based program questions	27	.8	46	2.4	-41

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NON-CONTROL MAIL
TABLE B (continued)

	SUBJECT	NUMBER OF LETTERS	PERCENT OF TOTAL	NUMBER OF LETTERS LAST COMPARABLE PERIOD	PERCENT OF TOTAL	PERCENT CHANGE SINCE LAST COMPARABLE PERIOD
12.	Complaint against lending institution or school	2	.1	1	.1	-50
13.	Opinion expressed	0	N.A.	1	.1	-100
14.	Complaint against administration budget proposals	1	.1	4	.2	-75
15.	New GSL provisions	1	.1	4	.2	-75
16.	SAR incorrectly sent to Washington	7	.2	0	N.A.	N.A.
17.	Pell Grant address change request	3	.1	4	.2	-25
18.	Duplicate SAR request	13	.4	11	.6	+18
19.	Pell Grant validation questions	2	.1	1	.1	+100
20.	LEEP questions	2	.1	28	1.5	-93
21.	Other	97	2.7	36	1.9	+59
	a. request for non-ED publications	(35)				
	b. Pell Grant application sent to D.C.	(11)				
	c. Special Condition Application eligibility	(7)				
	d. SSIG	(6)				
	e. wrong box (non-OSFA mail)	(4)				
	f. promissory note	(4)				
	g. school eligibility	(4)				
	h. no responses necessary letters (e.g., thank you notes)	(3)				
	i. TRIO-related inquiries	(3)				
	j. advertisements sent to P.O. Box 84	(3)				
	k. GSL agency question	(2)				
	l. requests to call inquirer	(2)				
	m. loan cancellation questions	(2)				
	n. miscellaneous	(11)				
	TOTAL	3,574		1,881		+90

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PUBLIC INQUIRY CONTRACTOR TELEPHONE CALLS
TABLE C

	SUBJECT	NUMBER OF CALLS	PERCENT OF TOTAL	NUMBER OF CALLS LAST COMPARABLE PERIOD	PERCENT OF TOTAL	PERCENT CHANGE SINCE LAST COMPARABLE PERIOD
1.	Request for general student aid information	1,579	16.2	897	7.8	+76
2.	Request for specific OSFA materials	676	6.9	430	3.7	+57
3.	Request for information on status of Pell Grant application(s)	2,321	23.7	4,626	40.0	-50
4.	Request for help with corrections to SAR					
	a. independent/dependent status	277	2.3	138	1.2	-64
	b. income	206	2.1	302	2.6	-32
	c. assets/debts	36	.4	190	1.7	-81
	d. taxes	20	.2	71	.6	-71
	e. signature	41	.4	67	.6	-39
	f. other	173	1.8	141	1.2	+23
5.	Request for review of ineligibility	139	1.4	109	1.0	+3
6.	Request for explanation of Pell Grant formula	54	.6	59	.5	-8
7.	Pell Grant payment problem or question	252	2.6	307	2.6	-18
8.	Problem with OSFA program deadlines	16	.2	60	.6	-73
9.	Questions or complaints on dependent/ independent status for Pell Grant Program	81	.8	60	.6	+35
10.	Referral to MDE agency (CSS, ACT, PHEAA)	115	1.2	221	1.9	-18

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PUBLIC INQUIRY CONTRACTOR TELEPHONE CALLS
TABLE C (continued)

SUBJECT	NUMBER OF CALLS	PERCENT OF TOTAL	NUMBER OF CALLS LAST COMPARABLE PERIOD	PERCENT OF TOTAL	PERCENT CHANGE SINCE LAST COMPARABLE PERIOD
11. Other programs					
a. general Federal loan information	129	1.3	310	2.7	-98
b. search for lender	0	.4	49	.4	-14
c. repayment questions for Federal loans	0				
d. campus-based program questions or problems	42				
12. Complaint against lending institution or school	49	.5	48	.4	-2
13. Opinion expressed	16	.2	25	.2	-36
14. Complaint against administration budget proposals	26	.3	NEW CATEGORY		
15. Completing an application (AFSA or MDE)	177	1.8	215	1.9	-18
16. Pell Grant address change request	525	5.4	553	4.8	-5
17. Duplicate SAR request	1,814	18.6	1,427	12.4	+27
18. Validation questions	123	1.3	503	4.4	-76
19. FAA questions					
a. technical	298	3.0	343	3.0	-13
b. policy	59	.6	75	.7	-21
20. Delays: 1982-83 payment schedule question	19	.2	NEW CATEGORY		
21. Congressional calls	6	.1	NEW CATEGORY		
22. Other	5[illegible]6	5.7	245	2.1	+79
TOTAL	9,825		11,471		-15

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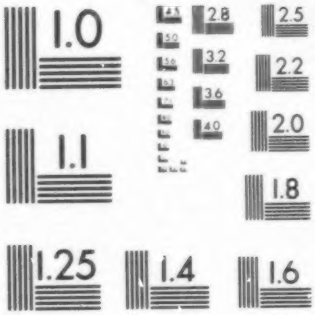
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MICROCOPY RESOLUTION TEST CHART
NATIONAL BUREAU OF STANDARDS
STANDARD REFERENCE MATERIAL 1010a
(ANSI and ISO TEST CHART No. 2)

INFORMATION SECTION TELEPHONE CALLS
TABLE D

	SUBJECT	NUMBER OF CALLS	PERCENT OF TOTAL	NUMBER OF CALLS LAST COMPARABLE PERIOD	PERCENT OF TOTAL	PERCENT CHANGE SINCE LAST COMPARABLE PERIOD
1.	Pell Grant payment problem or question	9	6.0	6	6.5	+50
2.	Complaint against lending institution or school	1	1.0	2	2.2	-50
3.	FAA questions					
	a. Technical	38	24.0	16	17.2	+238
	b. Policy	5	3.2	9	9.7	-44
5.	Congressional calls	24	15.0	16	17.2	+50
6.	Complaint against administration budget proposals:					
	a. from financial aid administrators	1	1.0	0	N.A.	N.A.
	b. from congressional offices	4	3.0	0	N.A.	N.A.
	c. from the general public	1	1.0	3	3.2	-67
	d. Other (DTD regional office) (Congressional service)	7	4.0	0	N.A.	N.A.
7.	Request for information on status of Pell Grant application	20	12.7	16	17.2	+25
	a. from financial aid administrators					
	b. from Congressional offices					
	c. from the general public					
8.	Social security-related question	3	2.0	NEW CATEGORY		
9.	Veterans benefits questions	6	4.0	NEW CATEGORY		
10.	Other	38	24.0	25	26.7	+52
	TOTAL	157		93		+59

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APPENDIX C:

GLOSSARY OF FREQUENTLY USED ABBREVIATIONS

GLOSSARY OF FREQUENTLY USED ABBREVIATIONS

ACA	Administrative Cost Allowance.
ACT	American College Testing Service.
ADS	Alternative Disbursement System (Pell program).
AGI	Adjusted Gross Income.
Campus-Based Programs	SEOG, NDSL, and CW-S programs.
CSS	College Scholarship Service.
CW-S	College Work-Study.
DCPR	Division of Certification and Program Review, Office of Student Financial Assistant, U.S. Department of Education.
DEIM	Division of Education Information Management, Information Resource Management Service, U.S. Department of Education.
DPO	Division of Program Operations, Office of Student Financial Assistance, U.S. Department of Education.
DPPD	Division of Policy and Program Development, Office of Student Financial Assistance, U.S. Department of Education.
DQA	Division of Quality Assurance, Office of Student Financial Assistance, U.S. Department of Education.
DSDD	Division of Systems Design and Development, Office of Student Financial Assistance, U.S. Department of Education.

GLOSSARY OF FREQUENTLY USED ABBREVIATIONS
Continued)

DTD	Division of Training and Dissemination, Office of Student Financial Assistance, U.S. Department of Education.
ED	U.S. Department of Education.
ED Finance	Financial Management Service, U.S. Department of Education.
EDIG	Office of the Inspector General, U.S. Department of Education.
EFC	Expected Family Contribution.
FAA	Financial Aid Administrator.
FAO	Financial Aid Office.
FAT	Financial Aid Transcript.
FCC	Federal Capital Contribution (NDSL program).
FCS	Family Contribution Schedule.
FISAP	Fiscal Operations Report and Application to Participate.
FISL	Federal Insured Student Loan.
GAO	U.S. General Accounting Office.
GSL	Guaranteed Student Loan.

GLOSSARY OF FREQUENTLY USED ABBREVIATIONS
(Continued)

HHS	U.S. Department of Health and Human Services (formerly HEW--Health, Education and Welfare).
MDE	Multiple Data Entry processor (also known as need analysis services).
NAP	National Appeals Panel (Campus-Based programs).
NDSL	National Direct (and/or Defense) Student Loan.
NPRM	Notice of Proposed Rule-Making.
OPE	Office of Postsecondary Education, U.S. Department of Education.
OGC	Office of the General Counsel, U.S. Department of Education.
OMB	U.S. Office of Management and Budget, Executive Office of the President.
OPBE	Office of Planning, Budget and Evaluation, U.S. Department of Education.
OSFA	Office of Student Financial Assistance, U.S. Department of Education.
Pell	Pell Grant (previously BEOG--Basic Educational Opportunity Grant).
PLUS	Parent Loans for Undergraduate Students (now includes ALAS--Auxiliary Loans to Assist Students).
PHEAA	Pennsylvania Higher Education Assistance Agency.
RDS	Regular Disbursement System (Pell program).

GLOSSARY OF FREQUENTLY USED ABBREVIATIONS
(Continued)

RFP	Request for Proposals.
SAI	Student Aid Index (Pell program).
SAR	Student Aid Report (Pell program).
SCR	Student Confirmation Report (GSL/FISL programs).
SEOG	Supplemental Educational Opportunity Grant.
SEP	Statement of Educational Purpose (also known as AEP--Affidavit of Educational Purpose).
SLIF	Student Loan Insurance Fund.
SVR	Student Validation Roster (Pell program).

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